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# Assessing privatization in Uganda

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# Assessing Privatization in Uganda

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**A Thesis submitted to the Department of International Development Studies (IDS) for the Award of a Degree of Doctor of Philosophy (PhD) of Roskilde University Centre (RUC), Denmark**

**30 August 2008**

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| | | |
|---|---|---|
| ADB | - | African Development Bank |
| AEL | - | Agricultural Enterprises Limited |
| AES | - | Allied Energy Suppliers |
| AG | - | Attorney General |
| AGM | - | Annual General Meeting |
| AGOA | - | African Growth Opportunity Act |
| AIC | - | Arabian International Construction |
| APC/RPC | - | Average/Relative Percentage Change |
| APPERD | - | Action Plan for Public Enterprise Review and Divestiture |
| ATGWU | - | Amalgamated Transport and General Workers Union |
| ATM | - | African Textiles Mill |
| ATMs | - | Automatic Teller Machines |
| AU | - | African Union |
| BOPs | - | Balance of Payments |
| BoU | - | Bank of Uganda |
| CAA | - | Civil Aviation Authority |
| CBR | - | Centre for Basic Research |
| CDC | - | Commonwealth Development Co-operation |
| CDO | - | Cotton Development Authority |
| CDR | - | Centre for Development Research |
| CDMA | - | Code Division Multiple Access |
| CELTEL | - | Cellular Telephones |
| CEP | - | Committee of Eminent Persons |
| CERUDEB | - | Centenary Rural Development Bank |
| CM | - | Chairman |
| CMBL | - | Coffee Marketing Board Limited |
| COMESA | - | Common Market for East and Southern Africa |
| CRR | - | Cash Reserve Ratio |
| CSSSC | - | Centre for Studies in Social Sciences Calcutta |
| DANIDA | - | Danish International Development Agency |
| DAPCB | - | Departed Asian Property Custodian Board |
| DCs | - | Developed Countries |

| | | |
|---|---|---|
| DDA | - | Dairy Development Corporation |
| DFC | - | Danida Fellowship Centre |
| DFCU | - | Development Finance Company of Uganda |
| DFF | - | Development Finance Fund |
| DIC | - | Divestiture Implementation Committee |
| DIS | - | Divestiture Implementation Secretariat |
| DRC | - | Domestic Resource Costs |
| DS | - | Divestiture Secretariat |
| EAC | - | East African Community |
| EBA | - | Everything but Arms |
| ECC | - | Electricity Consumer Committee |
| ECGS | - | Export Credit Guarantee Scheme |
| ED | - | Executive Director |
| EDF | - | European Development Fund |
| EIB | - | European Investment Bank |
| ENHAS | - | Entebbe Handling Services |
| ENRECA | - | Enhancement of research capacity |
| EPZ | - | Export Processing Zone |
| ERA | - | Electricity Regulatory Authority |
| ERP | - | Effective Rate of Protection |
| EU | - | European Union |
| FDI | - | Foreign Direct Investment |
| FIs | - | Financial Institutions |
| FTZ | - | Free Trade Zones |
| FUE | - | Federation of Uganda Employers |
| GDI | - | Growth Domestic Investment |
| GDP | - | Gross Domestic Product |
| GODAD | - | Goals, Objectives, Dividend, Annual account, Directors |
| GSM | - | Global Service Mobile |
| HEP | - | Hydro Electric Power |
| HPAEs | - | Highly Performing Asian Economies |
| ICB | - | International Credit Bank |
| ICDC | - | Industrial and Commercial Development Corporation |
| ICFTU | - | International Confederation of Free Trade Unions |

| | | |
|---|---|---|
| ICGU - | - | Institute of Corporate governance of Uganda |
| IDPs | - | Internally Displaced Persons |
| IDS | - | International Development Studies |
| IFCs | - | International Finance Corporation |
| IGG | - | Inspector General of Government |
| IMF | - | International Monetary Fund |
| INTERID | - | International Investigators and Detectives |
| IPP | - | Independent Power Producers |
| IRR | - | Internal Rate of Return |
| ISI | - | Import Substitution Industry |
| ITU | - | International Telecommunications Union |
| J-Vs | - | Joint Ventures |
| KCC | - | Kampala City Council |
| KDS | - | Kampala District Services |
| KPL | - | Kampala Pharmaceuticals Limited |
| LDCs/DCs | - | Less Developed Countries/ Developed Countries |
| L-F | - | Local-Foreign |
| LOCA | - | Law of Comparative Advantage |
| LRA | - | Lord's Resistance Army |
| LRR | - | Liquidity Reserve Ratio |
| MBO | - | Management Buy Out |
| MC | - | Marginal Costs |
| ME | - | Mixed Enterprises |
| MFRs | - | Minimum Financial Requirements |
| MLR | - | Minimum Liquidity Requirement |
| MNCs | - | Multi-National Corporations |
| MoD | - | Ministry of Defence |
| MoF | - | Ministry of Finance |
| MoFPED | - | Ministry of Finance, Planning and Economic Development |
| MOIT (T) | - | Ministry of Industry and Trade (Tourism) |
| MOL | - | Ministry of Labour |
| MSEs | - | Medium Scale Enterprises |
| MSI | - | Medium Scale Industries |
| MSWL | - | Madhvani Sugar Works Limited |

| | | |
|---|---|---|
| MTCS | - | Medium Term Competitive Strategy |
| NAI | - | Nordic Africa Institute |
| NBL | - | Nile Breweries Limited |
| NDA | - | National Drug Authority |
| NDP | - | National Development Plans |
| NE | - | North East |
| NH & CC | - | National Housing and Construction Corporation |
| NIC | - | National Insurance Corporation |
| NOTU | - | National Organization of Trade Unions in Uganda |
| NPART | - | Non- Performing Assets Recovery Trust |
| NPV | - | Net Present Value |
| NRA/M | - | National Resistance Army/Movement |
| NSSF | - | National Social Security Fund |
| NTB | - | National Textiles Board |
| NUCCPTE | - | National Union of Clerical, Commercial, Professional and |
| NUCMAW | - | National Union of Co-operative Movement Workers |
| NUEI | - | National Union of Educational Institutions |
| NUPAWU | - | National Union of Plantation Agriculture Workers Union |
| NYTIL | - | Nyanza Textiles Industry Limited |
| OPEC | - | Organization of Oil Exporting Countries |
| OPIC | - | Overseas Private Investment Corporation |
| PAPCO | - | Paper Company |
| PBIT | - | Profit before Interest and Tax |
| PEAP | - | Poverty Eradication Action Plan |
| PERDS | - | Public Enterprises Restructuring and Divestiture Statute |
| PEs | - | Private Enterprises |
| PES | - | Public Enterprise Secretariat |
| PhD | - | Doctor of Philosophy |
| PIP | - | Public Investment Program |
| PMU | - | Privatization Monitoring Unit |
| POSB | - | Post Office Savings Bank |
| PRWG | - | Policy Review Working Group |
| PSD | - | Private Sector Development |
| PSF/PAF | - | Price Stabilisation/Assistance Fund |

| | | |
|---|---|---|
| PSOEs | - | Privatized State Owned Enterprises |
| PTA | - | Preferential Trade Area |
| PTC | - | Peoples Transport Company |
| PURSP | - | Privatisation and utility Sector Reform Project |
| REER | - | Real Exchange Rate |
| ROCE | - | Return on Capital Employed |
| ROI | - | Return on Investments |
| ROS | - | Return on Sales |
| RoU/GoU | - | Republic/Government of Uganda |
| RUC | - | Roskilde University Centre |
| S_M_P | - | State-Mixed-Private |
| SACU | - | South African Customs Union |
| SAPs | - | Structural Adjustment Programmes |
| SAS | - | Statistical Analysis System |
| SCOUL | - | Sugar Corporation of Uganda Limited |
| SEANIEs | - | South East Asia Newly Industrializing Economies |
| SG | - | Solicitor General |
| SHOME | - | Strategies, Human Resources, Objectives, Monitoring and Evaluation |
| SIP | - | Special Import Program |
| SOEs | - | State Owned Enterprises |
| SSA | - | Sub Saharan Africa |
| SSI | - | Small Scale Industry |
| TBs/NTBs | - | Tariff/Non-Tariff Barriers |
| TFP | - | Total Factor Productivity |
| TNCs/MNCs | - | Trans or Multi-National Corporations |
| TOA | - | Taxi Owners Association |
| TNDC | - | Tanzania National Development Corporation |
| TPDF | - | Tanzania People's Defence Forces |
| TU | - | Trade Union |
| TUMPECO | - | The Uganda Metal, Panel, and Enamelling Company |
| TV | - | Television |
| UBCCECAWU | - | Uganda Building, Construction, Civil Engineering, Cement and |
| UBL | - | Uganda Breweries Limited |
| UBOA | - | Uganda Bus Owners Association |

| | | |
|---|---|---|
| UBoS | - | Uganda Bureau of Statistics |
| UBTAWU | - | Uganda Beverages, Tobacco and Allied Workers' Union |
| UCB | - | Uganda Commercial Bank |
| UCC | - | Uganda Communication Commission |
| UCCOL | - | Uganda Cable Corporation Limited |
| UCDA | - | Uganda Coffee Development Authority |
| UCEU/PWU | - | Uganda Communications Employees' Union/Postal Workers |
| UCL | - | Uganda Clays Limited |
| UCSU | - | Uganda Civil Service Union |
| UCWL | - | Uganda Clay Works Limited |
| UDC | - | Uganda Development Corporation |
| UEAWU | - | Uganda Electricity and Allied Workers' Union |
| UEB | - | Uganda Electricity Board |
| UEDCL | - | Uganda Electricity Distribution Company Limited |
| UEGCL | - | Uganda Electricity Generation Company Limited |
| UEPB | - | Uganda Export Promotion Board |
| UETCL | - | Uganda Electricity Transmission Company Limited |
| UFAWU | - | Uganda Fish and Allied Workers' Union |
| UFEL | - | Uganda Fish Export Limited |
| UFM | - | Uganda Fishnet Manufacturers |
| UGAWU | - | Uganda Government and Allied Workers' Union |
| UGIL | - | Uganda Garment Industry Limited |
| UGMC | - | Uganda Grain Milling Company |
| UHFAWU | - | Uganda Hotels, Food and Allied Workers' Union |
| UIA | - | Uganda Investment Authority |
| UIPE | - | Uganda Institute Professional Engineers |
| UIRI | - | Uganda Industrial Research Institute |
| UK | - | United Kingdom |
| ULATI | - | Uganda Leather and Tanning Industry |
| UMA | - | Uganda Manufacturers Association |
| UMMAWU | - | Uganda Mines, Metal and Allied Workers' Union |
| UMPL/UMIL | - | Uganda Meat Packers Limited/ Uganda Meat Industries Limited |
| UMU | - | Uganda Media Union |
| UMWU | - | Uganda Medical Workers' Union |

| | | |
|---|---|---|
| UNAMU | - | Uganda Nurses and Allied Medical Workers Union |
| UNATTO | - | Uganda National Association of Taxi Owners and Operators |
| UNBS | - | Uganda National Bureau of Standards |
| UNCTAD | - | United Nations Commission for Trade and Development |
| UNESCO | -United Nations Educational, Scientific and Cultural Organization | |
| UNEX | - | Uganda National Exporters |
| UNIDO | - | United Nations Industrial Development Organization |
| UNLA | - | Uganda National Liberation Army |
| UP & TC | - | Uganda Posts and Tele-Communications |
| UPA | - | Uganda Planning Authority |
| UPC | - | Uganda Peoples Congress |
| $UP_hL$ | - | Uganda Pharmaceuticals Limited |
| UPL | - | Uganda Posts Limited |
| UPPAWU | - | Uganda Printers, Publishers and Allied Workers' Union |
| UPTC | - | Uganda Peoples Transport Company |
| URA | - | Uganda Revenue Authority |
| URC | - | Uganda Railway Corporation |
| URWU | - | Uganda Railway Workers' Union |
| USA | - | United States of America |
| USAID | - | United States Agency for International Development |
| UTA | - | Uganda Tea Authority |
| UTB | - | Uganda Tourist Board |
| UTC | - | Uganda Transport Company |
| UTGC | - | Uganda Tea Growers Corporation |
| UTGLAWU | - | Uganda Textiles, Garments, Leather and Allied Workers Union |
| UTODA | - | Uganda Taxi Operators and Drivers' Association |
| UTU | - | Uganda Teachers Union |
| VOIP | - | Voice over the Internet Point |
| WB | - | World Bank |
| WHO | - | World Health Organization |
| WSTB | - | Water Science Technology Board |
| WTO | - | World Trade Organization |

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## Declaration

**I, <u>David Lameck KIBIKYO</u>,** declare that this thesis entitled "Assessing Privatization in Uganda" is my original work and it has not been submitted to any institution of learning for any award of a Degree or Diploma.

Signed Date 30 August 2008

David Lameck KIBIKYO

## Approval

This thesis entitled "Assessing Privatization in Uganda" has been under my supervision and is ready for submission for examination with my approval.

Signed…………………………………………………

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**Abstract**

The research attempts to answer the question: What has been the effect of privatization on fiscal and firm performance, and how can privatization effectiveness be accounted for in Uganda? The study contributes to understanding of privatization process in Uganda by including variables previously ignored by earlier studies such as corporate governance and regulation.

From a population of 117 firms privatized, a sample size of 31 enterprises was chosen basing on similar studies' sizes. Individual firms studied were chosen were selected according to data availability. Data sources included enterprise records and trade unions officials' interviews. Firm-level data was collected mostly from the Finance Ministry, libraries and firms themselves during the last quarter of 2002 and the entire 2003. Trade unions interviews took place in March to May of 2006. While the fiscal impact of privatization straddles macro levels, firm performance and privatization effectiveness analysis were micro. Non-parametric-methods tested for differences in firm performance before and after privatization, and comparisons between state, private and mixed-owned firm. Cost analysis tracked changes in transactions and other firms' costs before and after privatization.

The fiscal impact of privatisation generally contradicted the theory regarding subsidies, but supported taxation and sales proceeds behaviour as found in other least developed countries (LDCs): **a**) While Madsen (1988) argues that subsidies fall with privatisation and Rolands (1994) maintains that falling subsidies reduce the budget deficit; the Uganda experience contradicted this theory. In Uganda, subsidies in nominal prices remained more or less the same over the period 1992/3 to 2004/5 explained by bail-out operations, government guarantees to energy sector, and state contracts. In addition, after 1998, central government budget rose although it de-linked from subsidies explained by factors other than subsidies; **b**) Taxes from privatised state owned enterprises (PSOEs) increased due to increased business; **c**) but failed to achieve the World Bank State Owned Enterprises (SOEs)' sales proceeds target of US$500, managing only US$172 m in 2006 due to assets undervaluation and stripping.

While privatization theory argued that impact on firm performance was neutral, positive and at times negative; the Ugandan evidence supports the views of a zero effect. The results of privatisation impact on firm performance indicated that with the exception of when state firms were combined with mixed firms and then compared with private ones, there was no difference in firm performance between public and private firms. First, comparing the firms' performances both before and after privatization or state owned with private ones showed no difference in performance between the two groups. The failure for privatization to show impact was attributed to: a) Non Tariff Barriers (NTBs)/ Tariff Barriers (TBs) regulation that caused contradicting results in the industrial sector that improved firm performance for the protected but caused industrial decline for the unprotected firms tending to cancel out the gains; b) excluding fresh entrants (non-PSOEs firms) that came after privatization from the study that had spectacular non-profit contributions in terms of new investments, product variety and innovations in banking and telecommunications; and c) failure to access funding by most PSOEs after privatization. Second and on the other hand; when, the state firms where combined with mixed owned firms and their performance compared with private firms, however, private firms tended to perform

better than state firms. In this exception case, FDI presence was responsible attributed to state subsidies, falling wage and superior products.

While Galal *et al* argued that in order for privatisation to influence firm performance it depended on how the public firms were managed, how the private firms were regulated and how the public firms were motivated; the Uganda evidence was mixed: having no impact on corporate governance unlike with regulation and motivation.

First, with the exception of the only case when the SOEs-developer (Uganda Development Corporation-UDC) was wound-up creating insufficient investments or neglected sectors**;** corporate governance did not influence firm performance after privatization. Corporate governance failure was attributed to lack of change in objective-setting in the partially privatized firms; a failure to improve strategic management in the Previously State Owned Enterprises (PSOE) due to colonial past that kept Africans as peasants or political appointments that recruited inferior staff; and a failure for transactions costs to change after privatization.

Second, and true to Galal *et al* projections*,* regulation impact on firm performance was mixed. NTBs/TBs improved firm performance for the protected category justified for purposes of job creation, to allow investment and tax revenue contribution to the government treasury; removal of protective tariffs in the rest of firms caused general decline although results also depended on whether a firm controlled a market or not with the former limping but the latter closing shop. Licensing impact displayed gains including innovations in banking and new investments in telecommunications but failed to deliver competition, product quality, and development explained by monopoly positions, politics, and corruption. Minimum Financial Requirements (MFRs) through Minimum Cash Requirements (MCR) limited entry improved bank performance; but Cash Reserve Ratio (CRR) impact depended more on structure: whereby price-takers deteriorated but price-makers improved explained by passing over the high interest rates to borrowers. Price control improved firm performance in the energy sector but economy-wide impact was less clear since tariff increases favoured industries more than domestic consumers but threatened international competitiveness.

Third and true to Galal *et al* projections, staff motivation influenced firm performance. While the total wage bill of 31 PSOEs surveyed fell from 14.9 to 9.1 billion shillings due to lay-offs, lower salaries for temporary workers and bankruptcy, generally improved firm performance; attempts to reduce job security in sectors that required training such as in the tea and sugar cane plantations affected product quality and firm performance negatively. The explanation was that while laying off workers did not result into dissatisfaction since they were replaced by new ones who accepted lower wages and fringe benefits and thereby not affecting worker satisfaction, more temporary terms attracted and favoured untrained staff leading to sub-standard work, hurting product quality and the firm revenue base. In the tea plantation sector, the selecting of leaves and failure to process sugar on the same day could be signs of general fall in quality, but this needed to be confirmed for all other sectors.

Privatization in Uganda is a success or a failure depending on the criteria or objective to apply. First, if de-linking subsidies from the central government was the criteria, then privatization was a success. Second, if higher profits to the now privatized firms were the criteria, privatization was a failure. The profitability of industrial companies had decreased, whereas the profitability of trade and service companies remained constant. Third, if better working conditions for employees were the criteria, privatizations was a success for the active labour force who had obtained higher salaries, alternatively, the laid off personnel got a raw deal in terms of lay off packages. So in terms of employment rates, privatization was a failure. (Words 1111)

# Chapter 1

## 1. Introduction and Theoretical Framework

On 25 January 1986, a guerilla army, the National Resistance Army (NRA), led by Yoweri Museveni stormed the capital, Kampala, and overthrew the Uganda National Liberation Army (UNLA) government led by General Tito Okello-Lutwa. This was the first time ever in African history, for a guerilla army to overthrow a government. Six months before, in 1985, the pressure by the guerillas had led to sharp disagreements within UNLA especially among Acholi and Langi soldiers resulting into an Acholi-led military coup. Tito Okello-Lutwa, the Army commander, took a pre-emptive step to overthrow his boss, President Obote, hoping that this act would create avenues for dialogue between the government and the guerillas. Despite the dialogue, nothing tangible was achieved. The five-year war continued ending on that day, and bringing with it several economic changes including privatization.

Interestingly, this bush war was not the first military confrontation the country had faced. Sixteen years before and on the same day, the country had witnessed another fierce battle resulting into another change of government to military rule headed by Idi Amin Daada. The eight-year Idi Amin military government wrecked a comparatively good African economy amid these violent changes of governments, no tangible results showed in the economy even by January 1986. Today, the almost two-decade NRA government has implemented several policies to rehabilitate the economy.

In order to survive in leadership, President Museveni changed drastically from Marxist to capitalist. While in the bush the guerrillas were professed Marxists. Museveni emerged out of the bush with a 'ten-point programme' to rehabilitate the economy. Three years after assumption of power, however, he immediately abandoned it and was ready to implement the World Bank's Structural Adjustment Programmes (SAPs) without reservations. One of the policies was privatization that began in 1992.

### *1.1 Brief review of Uganda's economy before privatization*

Prior to privatization in 1992, the Uganda economy fared badly due to turmoil and insecurity of pre-1986 regimes. In 1979, GDP was only 80 % of the 1970 level. In particular, industrial output declined sharply due to scarcity of equipment, spare parts and raw materials. Although the country experienced a 17.3 % growth rate attributed to agriculture, little progress was made in manufacturing and other sectors. The economic and political destruction in the 1970s and 1980s caused a decline in GDP with negative growth rates of 4.2 % in 1984, 1.5 % in 1985, and 2.3 % in 1986.[1]

#### 1.1.1 Structure of the Uganda Economy, Size and Role of the Public Sector

Uganda was predominantly an agricultural country. In 1980, the agricultural sector contributed 72 %, industry 4 % and services 23 % of GDP. In all sectors, the economy was just recovering from mismanagement by the military regime of the 1970s and civil wars of the 1980s. Amid the decay, the economy harboured a dominant public sector.

##### *1.1.1.1. The Emergence of the SOEs Sector in Uganda*

State owned enterprises (SOEs) emerged in Uganda mainly through the collapse of the colonial state after the Second World War and the nationalization policies of the 1970s.

*The Colonial SOEs after Second World War*

The Second World War greatly hurt the financial clout of the British economy that in order to maintain a source of raw materials and a market for finished goods; she had to produce in the colonies using local capital (Marcussen and Torp, 1982). In Uganda, the colonialists established SOEs using local capital accumulated through savings from cotton and coffee sales between 1948 and 1953.

From 1940 onwards, the British allowed the Uganda colonial government to retain a larger part of the earnings of the peasants in the form of a Price Stabilization Fund (PSF) amounting to nearly £10.55 m by 1948. Finance was mobilized out of the Second World War profits on cotton and coffee that was put in a fund. Money amounting to £0.5 million was put into coffee Price Assistance Fund (PAF), while another £6 million was earmarked for various public development projects. Despite considerable transfers to the central government over the years for budget support, the balances accumulated to £37 million by mid-1954.The source of funds, as already hinted were export taxes on cotton and coffee of 15-20 % between 1948 and 1958, which dropped to 13 % in 1959 and 17 % in 1960 (World Bank, 1962:17-8). This money was channeled into development projects. A year after, £3.925 m was taken out straight into another “Price Assistance Fund” and between 1949 and 1953 had accumulated to £44.475m. In total, between 1945 and 1960, the state re-capitalized an amount equal to (£231.9-£112.9) £119.0 million.

By independence in 1962, there were 24 SOEs including UEB, 16 subsidiaries and 7 associated companies of UDC. UDC was charged with starting new enterprises. While the associated firms concentrated in food and beverages processing and the mining sectors, the subsidiaries were in manufacturing, building and property development, hotels and tourism, agriculture, banking and finance, and commerce. The British-owned subsidiaries controlled the Ugandan economy, ensuring a source of raw materials and a market for the finished British goods and the exploitation of agricultural and mineral wealth continued prior to independence unabated. But independence threatened this exploitation.

Just two years to independence, in 1960, a plan was hatched to maintain control over the economy for the next post-independence 15-year era. The colonial government made a plan for the future "nationalist government". The Mission consisted of 9 members including two World Bank staff, UNESCO and WHO helped recruit a specialist each for education and health respectively. The team[2] of "specialists" mission objective as agreed upon by Britain, "Uganda" and World Bank was to present practical recommendations with supporting analysis and suggestions as to the specific actions to be taken as a basis for drawing a development programme from 1961/62-1965/66 (World Bank, 1962: vii)].

The team recommended that since world market prices of coffee and cotton had dropped and could not be used as a source of development capital, government needed to borrow. In addition, the "team of experts" argued that mining was 'insignificant' compared to other African countries. The chances for "expansion" where considered slim, for copper and wolfram, tin, gold and lead. However, borrowing did not solve the problem of shortage of development capital neither in 1963 nor later years [RoU, 1963:3; World Bank, 1962].

*The Obote Nationalization*
Between 1962 and 1970, the Obote government created several SOEs through UDC. However, a greater number of SOEs (78) were created by the 1970 Obote nationalizations. On International Labour Day, President Obote spelt out his socialist agenda termed ‘’the new all-embracing political culture of control of the means of the production and distribution for the decade.” Obote argued that the new government policy was that the Ugandans had to actively engage in every field of production, commerce and industry, manufacturing and plantation industry while continuing to guide the immediate implementation of the Common Man's Charter.

Key policy pronouncements contained in the new agenda included:

i) Only SOEs would carry out all import and export business although oil companies would continue to import and distribute petroleum products;

ii) Government would acquire 60 % of the shares of each of these oil companies;

iii) Transport was one of the services that would be run effectively by the beneficiaries (passengers) to make it adequate and improve on the required standards. Kampala City Council (KCC) and the Trade Unions (TU) in Kampala would acquire 60 % of the Kampala and District Bus Services (KDS). In upcountry regions of Uganda the District administrations, together with the Trade Unions and the Co-operative Unions of each of these regions would acquire 60 % shareholdings in the bus companies;

iv) UDC was empowered to increase its shareholding to 60 % in Kilembe Mines, while the workers and SOEs would acquire 60 % in any other manufacturing and plantations units; and

v) Lastly, government would immediately acquire 60 % of the shares of every Bank, credit institution and insurance company operating in Uganda. Since workers were owners, strikes were outlawed. The appropriated shares would not be paid for directly by government but from the profits made by the nationalized companies (RoU, 1970: 2-4; *Uganda News*, May 1st No.1607/1970:2-5).

The media[3] termed the address "stirring" and the Minister for Cabinet Affairs announced May 2, 1970 another public holiday on top of May 1.

Negotiations followed and 7 companies were dropped from the nationalization process. The Oil companies settled for 50-50 % shareholding alongside the government while the British Banks managed to get a better deal of 40-60 %. In the end, a total of 78 enterprises were nationalized. The British and Israelites, however, did not allow Uganda to exercise "The Move to the Left". They organized a military coup, which ousted President Milton Obote from power on January 25, 1971. Obote was replaced with his Army Commander, Major General Idi Amin Daada (Mamdani, 1983:30-1). Uganda thus remained firmly "Put to the Right."

The removal of Obote who was a Christian, socialist and who had encroached on foreign investments and replacing him with Amin who was a Muslim can have several interpretations. The first one is that to Britain economic interests were far more important than religious ones. According to Bade (1996:92), Britain had considered it important to give independence to a Uganda headed by an Anglican African President in 1962. But in 1971, just nine years later, this no longer mattered indicating either a shift in priority or policy in Britain. Secondly, the overthrow could be interpreted that besides the fear of military attack from communists by the West there were other genuine fears linked to African countries tending towards communism. That fear was the spread of socialism or communism in LDCs posed a threat to the capitalist advancement and expansion of the MNCs' web of operations and accumulation.

After the British and Israelites had installed Amin in power, he paid back handsomely. President Amin reversed Obote's formula for government shareholding in the foreign investments. According to the military leader, "this was a vital amendment, which resulted into the return of confidence in the country's economic progress". Amin replaced Obote's 60-40 % shareholding with the 49-51 % formula (RoU, 1972:67). However Amin was not completely out of support with the nationalization policies.

*Amin Nationalization*

Having abandoned the blanket nationalizations involving all foreign investments, he singled out the Asians and orchestrated probably the single biggest nationalizations in the entire world involving 5655 businesses. In August 1972, Amin under decree 17/1972 revoked the residence permits of Asians of Indian, Pakistan and Bangladesh origin and gave them 90 days to leave the country.

Amin accused the Asians of several offences including:

i) Abuse of Foreign exchange regulations resulting from export of goods and keeping the foreign exchange proceeds abroad. This also included undervaluing of exports and overvaluing of imports in order to keep the difference in their overseas accounts;

ii) Hoarding and smuggling of commodities like sugar, oil and hoes creating artificial shortages in order to keep the prices in the country unreasonably high;

iii) Undercutting African traders and unfair competition. Asians had been importers, wholesalers and retailers all in one. They ensured that business remained entirely in Asian hands. One trick they used was practising price discrimination against Ugandan African traders in that they supplied their fellow Asians with goods at low prices than those they supplied to Uganda Africans traders;

iv) Employing family members in their businesses and if they employed the African they hid business secrets from him, mistrusted and did not give him authority;

v) Tax evasion where they kept two different books of accounts one for Income tax department and the other showed the true and correct account of the business and in Gujarati or Hindu and ensured they paid less tax than they ought to;

vi) Practising and spreading the dangerous disease of corruption. Asians believed that they could not get any service in the government department or parastatal without bribing their way; and lastly

vii) Disloyalty to the country by the fact that Asians had been availed the facilities for both local and foreign training in medicine, engineering, law and other professions but many of them had either worked briefly for government or opted directly for private sector.[4] Regardless of the truth of the accusations, the effect of the expulsion was to increase the number of SOEs and disrupt the Uganda economy.

Jorgensen (1981:288-9) has refuted the nature of strategy used to chase Asians, arguing that although Amin did not enact a decree to chase Asian Citizens, many left in fear of intimidation from the civilians and soldiers as well as the threat of being dispersed in rural resettlement schemes. Jorgensen reports a total of 49, 000 Asians expelled. Great Britain took 27, 000; Canada 6, 000; India 4, 500, Pakistan, West Germany, Malawi and the USA each 1, 000, Australia 500, Sweden 300, New Zealand 200, Austria and Mauritius each 100; 3, 600 wound up in European refugee camps; 2, 500 Asian citizens of Kenya and Tanzania simply went home; and 4, 000 Asians chose to remain in Uganda.

President Amin announced that all people who had applied for businesses formerly owned by Asians would be interviewed by four cabinet sub-committees. In addition, Amin nominated 30 Army and Air force officers and posted them to the sub-committees to check and distribute the businesses. The Minister of Information and Broadcasting, William Naburi chaired the subcommittee covering Kampala North; The Minister of Mineral and Water Resources, Erinayo Oryema headed the Kampala Central sub-committee; the Minister of Power and Communication, Lt. Colonel Obitre Gama chaired the Kampala South subcommittee and Engineer James Dhikusooka, the Minister for Works and Housing led the Entebbe sub-committee. The 5, 655 Asian properties were subdivided into 5, 502 business firms and 153 ranches to be distributed together with household property. The distribution favoured individuals who received 5, 299 business firms and ranches as well as 144 estates. Even the charitable organizations also shared the spoils and received two business firms and ranches. Government departments and Ministries received 175 enterprises while 33 went to parastatals [Jorgensen, 1981: 288-90; GoU, 1977:46].

Due to the immediate unplanned expansion in SOEs, UDC was given 45 more SOEs abandoned by the departed Asians in addition to her own 55 subsidiaries and associated companies. This act overstretched UDC's skilled and trained staff who were scattered to go and run enterprises left by Asians. Even junior staffs were made managers in order to cope with the situation. Yet still, more SOEs of a commercial nature were created overnight (Kinyatta, 1989:5-6). In the end, Amin created more SOEs than any other regime that has been in power in Uganda; but because of lack of human and capital capacity, insecurity and the donor-SOEs link, the large SOE sector caused de-industrialization instead.

*1.1.1.2. The Size and Role of the Public Sector in Uganda 1980-6*

Hence the SOE sector was made up of mostly remnants of government investments put in place in the 1960s and Asians' assets expropriated in 1972. By 1986, when the NRM took power, government had a total of 146 SOEs, with 138 majority holdings and 8 minority state holdings (Ddumba-Ssentamu and Mugume, 2001:10). Most of the 146 SOEs existed only in the register. These SOEs made a sizeable contribution in employment, investment and value adding.

SOEs contributed greatly to employment in Uganda. For instance, the five manufacturing firms under the UDC employed a total of 3,905 persons in 1963 that increased to 4,019 a year later. Comparing these figures with national employment levels of 19,220 and 20838 for the same period indicates that SOEs accounted for 20% of total employment in each period. Employment increased rapidly over time whereby between 1954 and 1965 it grew by 22 %, fixed capital by 24 % and value-added increased even faster than the two (Stoutsdijk, 1967: 37-8). Comparing the 1963-64 Uganda data with the rest of the LDCs between 1978-85 shows that Uganda's SOE share of 20 % in employment was close to the LDCs where Africa's was 19.9 %, Asia's 2.9 %, and Latin America's 2.8 %. Uganda's figure doubled that of the LDC average of 10.2 %, implying that Uganda was one of those countries that over-recruited in the SOE sector during the period.  The big size of the SOE sector also created macro-problems.

*1.1.2 General Problems of the SOE Sector*

The majority of SOEs performed poorly as a result of country's violent political history and collapsed economy. SOEs suffered from low capacity utilization, large operating losses or low profitability, and being illiquid and indebted (Ddumba-Ssentamu and Mugume, 2001:10). The UDC's subsidiaries which were Joint Ventures (J-Vs) give the worst scenario of SOE performance.

Before privatization and with the exception of 1988, the financial performance of joint venture companies returned an operating loss of shs.72 million (US$36, 000) between 1986 and 1988. The profit in the year 1988 was exceptional because of the Shs. 222 million (US$111, 000) made by Uganda Grain Milling Company (UGMC) through sales of wheat from barter trade. The loss before interest and tax (PBIT) was

Shs. 265 million (US$132,500) in 1988 and profit-sales ratio of negative 9.7 % compared to 6.4 % for other manufacturing enterprises in the public sector. Most J-Vs were insolvent and illiquid, and were operating below 50 % capacity. They also had problems like obsolete plants, raw material shortages, under-capitalization, low motivation and morale, poor maintenance, failure of management to prepare alternate plans and strategies in a rapidly changing policy environment. The monopoly situation of most of the UDC group of companies did not encourage aggression and innovativeness (UDC, 1990:6-7).

The 1992 study indicated that SOEs contributed little or nothing at all to the treasury. The study that covered 30 SOEs showed that of this number, only 11 were profitable and the rest not. The overall average ROCE was 5.4 % considered very low when commercial lending rates of 35 % and inflation of 30 % for the period was taken into account (ROU, 1993:148). Hence, SOEs displayed very bad project management skills.

### *1.1.3 Macro-level Troubles of the Ugandan Economy 1980-6*

Between 1972 and 1986, the public sector, just like the overall Ugandan economy declined. In 1986, the economy suffered from severe shortages of supply of basic necessities, industrial bottlenecks of destroyed infrastructure and utility sector, lack of agricultural inputs and excess capacity, and continued insecurity that bred internally displaced persons (IDPs), orphans and widows.

There was a huge budget deficit marched by an equally huge amount of money in circulation as a result of financing the budget deficits through money creation. Between 1981 and 1984, the budget deficit grew 1.9 times from Shs.26.9 million to Shs. 79.2 million. Most of this deficit was financed by money creation fanning inflation being 111.1 % in 1981 but fell to 42.9 % in 1984. The huge money supply in the economy caused hyperinflation and unfavourable Balance of Payments (BOPs).

Attempts to finance budget deficits through borrowing generated external debt growing over the period by 53 % between 1980 and 1984 from US$0.696.4 billion to US$1.065 billion respectively (RoU, 1987b: 1; RoU, 1988b: 1). This general poor macro economic situation discouraged investment and called for a drastic solution.

The poor performance of both SOEs and overall economy paved the way for privatization in Uganda.

### *1.2 Privatization Policy and Strategy and the Nature of Property Rights in PSOEs*

This sub-section explores the privatization policy and strategy that includes timing and speed of the process, objectives, movers and institutional arrangements, and overall strategy.

#### *1.2.1. Timing, Sequencing and Speed*

Privatization started unofficially in 1989 with the sale of some six firms. In 1992, 142 SOEs were officially put on sale launching the project. The PERDS 9/1993 and its subsequent amendments classified enterprises in five groups. The first group (I) included those enterprises to be fully owned by government and comprised firms that were economically viable, politically sensitive, provided essential services and were tied to projects that had huge external funds acquired by government for their rehabilitation. The second category (class II) consisted of enterprises in which government held majority shares and comprised of viable, politically sensitive and that provided essential services but differed from the first group by the fact that rehabilitation costs funded by foreign donors. The third category (Class III) included enterprises where government was to hold minority shares. These were viable economically and high cost projects that attracted private equity and technology if government were to take up some equity holding in them. The fourth (Class IV) included those enterprises that were economically viable and commercially oriented while the fifth (Class V) categories included those enterprises slated for sell and liquidation respectively. They were economically unviable and defunct or non-operating SOEs. The criteria of starting with small ones, to medium and later to large seem to have been at work and was intended to be cautious as they learnt by doing (RoU, 1993:148-161).

The Government adopted and utilized a set of criteria to classify SOEs into those which would remain entirely, majority or minority Government ownership; those to be privatized, and those which would be liquidated. First SOEs that were non viable would be liquidated since their continued operation was only a drain on the Treasury. Second, government would not operate any commercially-oriented SOEs unless it was for security reasons politically sensitive or provided essential services. Third Government would as a rule take minority shareholding only in new enterprises where high cost projects would attract private equity and technology. All other enterprises, except those falling in the second class above, would be privatized (*RoU, 1993:148-161*).

The Government would partly privatize the SOEs in Classes II and III, while fully privatizing those in Class IV and liquidating the rest (Class V). The classification was not completely rigid and SOEs could always be re-classified depending on any peculiar circumstances applicable to a specific SOE or at any specific moment in time. In reality, this was only a target classification, subject to review during implementation when more detailed technical evaluations of SOEs would be available. Henceforth, Government delegated the Divestiture Implementation Committee (DIC) to change the classification of individual SOEs based on strict application of the above Cabinet-approved criteria (RoU, 1993:148-161).

The process delayed due to intervention by Parliament that halted it twice over issues of corruption. A timetable was drawn to sell all SOEs by 1995. By 2005, several years off schedule, some 38 parastatals remained including strategic ones such as the Uganda Railways Corporation (URC), National Insurance Corporation (NIC), Kinyara Sugar Works ($K_i$SW), National Housing and Construction Company (NH &CC) and Uganda Diary Corporation (UDC).[5]

### *1.2.2. Privatization objectives, policy and strategy*

The principal objective of privatization was to reduce the budget deficit arising from the loss-making SOEs (PERDS Act 9/1993).[6] The majority of SOEs were commercial while the rest were loss-making and needed discontinuing.[7] This was to be achieved through the reduction of the role of the government in the economy and a corresponding promotion, development and strengthening of the private sector development (PSD), reform of those SOEs still under state ownership and control[8] to relieve financial drain and the administration burden, and raise revenue through SOE divestiture. The effect of privatization on the budget is handled separately under fiscal impact of privatization in **Chapter Three**.

The second objective of privatization was to increase efficiency in SOEs through rehabilitation and restructuring,[9] promotion of local entrepreneurs,[10] promotion of institutional arrangements, policies and procedures by ensuring efficient and successful management, financial, accounting, and budget discipline of SOEs;[11] separation of ownership from management functions[12] and enforcement of accountability.[13] The push for divestiture and reform generated a new set of property owners in Uganda. The effect of privatization on firm performance forms the basis of this study in **Chapter Seven.** In addition, I also investigate what determines privatization effectiveness in **Chapters Four** to **Six**.

To achieve the above objectives of divestiture and reform, the Government sponsored a programme of intensive preparation of a longer-term Public Enterprise Reform and Divestiture programme (PERDS) through sector-wide studies and planning to identify the most effective means of bringing about such a programme. This Action Plan for public reform and divestiture (APPERD) was defined, the first stage being a “five year APPERD”. Its major steps would include divestiture (including liquidation) of 50 SOEs in the first phase of rationalization of the sector and adopt several other reform measures (RoU, 1993:148-161).

*1.2.2.1. Divestiture Policies*

The Government recognized that the effectiveness of the divestiture programme in attracting investors would depend upon the overall investment climate as well as the attractiveness of the sales package for a particular SOE. Separately the Government took measures to improve the investment climate including the enactment of a new vestment Code 1991. Government proposed to ensure investor interest in divestiture in four ways. First, in order to attract investments SOEs for divestiture would have a good profit potential. Second, the new owners would have access to term finance for PSOEs rehabilitation and autonomy to manage the operations on fully commercial lines. Third, government would freely permit Ugandans with funds held abroad to acquire equity in divested SOEs. Fourth and lastly, government would encourage commercial banks to provide credit for SOEs purchase and rehabilitation after divestiture by ensuring that the divested enterprises had sound management and strong prospects of adequate profitability (*RoU, 1993:148-161*).

Further, the implementation of divestiture policies would be flexible and designed to ensure optimal economic benefits to Uganda and the investors. In this context, Government would undertake an annual review of the divestiture program and its policies and modalities. Government's broad guidelines for the divestiture program included valuation, joint ventures, FDI, legal technicalities, and subsidies.

- Valuation would be based on market rather than book value;
- in SOEs to be converted to joint ventures, private sector partners would acquire a majority interest and had management control without government interference;
- consider foreign investment where there was a need for external equity, management and/or technology;
- all legal issues would be addressed before putting up a SOEs for sale; and
- No undue advantage or protection would be offered to investors (*RoU, 1993:148-61*).

*1.2.2.2. SOEs Reform Policies*

Retained SOEs reform would follow five basic principles: (a) management autonomy (b) greater accountability, (c) providing support for improved performance on a one-time basis, (d) rewarding good, and punishing performance, which included letting loss-making SOEs close down rather than provide them subsidy or other support, and (e) ensuring adequate competition to SOEs by not restricting entry of other enterprises into similar activities; and for natural monopolies, prompt the development and introduction of suitable regulatory mechanisms by the supervising ministries. The main elements of the reform process included autonomy, financial discipline, improved reporting, and financial measures (RoU, 1993:148-61) immediately elaborated.

*1.2.2.2.1. Autonomy: separation of ownership and management functions*

**G**overnment promised to separate ownership from SOE management role in four ways. First, it would agree with SOE Boards of Directors on the SOEs' general objectives and targets; granting explicit management autonomy to SOEs to achieve said objectives by running their operations in an optimally efficient and competitive manner and without interference; and making explicit provision for holding managements accountable for the results achieved by them. Second, SOE Boards of Directors would be restructured in a manner that would stress their role as top management organs by selecting their membership from rosters of technically and managerially qualified persons to be set up for that purpose on the basis of candidate screening and authentication by a Committee of Eminent Persons (CEP); this action would be harmonized with the existing policy prescribing a minimum number of SOE board members to be selected from parliamentarians, by ensuring that the rosters would include adequate representation of parliamentarians. Third, systems for evaluating performance would be set up to ensure the necessary transparency and commitment in regard to all stakeholders. Fourth and last, UDC role would be redefined in various ways such as emphasizing it as an Industrial Promotion Agency and not as a holding company. UDC would be restructured to disengage its management from its delegated ownership functions and responsibilities over its subsidiaries and associated enterprises, thus equating UDC subsidiaries with the non-UDC SOEs (RoU, 1993:148-61).

*1.2.2.2.2. Financial discipline*

Government promised to affirm and elaborate its existing policy against providing financial support to SOEs through an explicit hard-budget policy that would involve cessation of loans, subsidies and guarantees to SOEs. Exceptions, if any, to these rules would define and made on an a-priori basis at the same time as the details of the rules were defined and made, be limited without fail to cases clearly covered by them, and would in any event be subject to commercial terms. Government promised to separate commercial from non-commercial objectives of individual SOEs. The non-commercial objectives would be supported by government through transparent financial transactions. But the commercially-oriented SOEs would be expected to become financially self-sufficient, from internally-generated funds and commercial bank credit operating; failing which they would be liquidated (RoU, 1993:148-61).

Third, direct government support in form of equity contributions and loans would be discouraged and only within the context of approved corporate plans and the Public Investment Program (PIP) for major investment projects, and only to supplement internal funds and, where applicable, commercial loans. Given that many SOEs required assistance in preparation of corporate plans, these guidelines would be applied in suitable phases (including removal of subsidies), pending completion of the corporate plans (RoU, 1993:148-61).

*1.2.2.2.3. Improving accounting, budgetary and appraisal processes*

Government promised to take steps to strengthen the appraisal, accounting and budgetary processes in retained SOEs. To that effect it would cause substantial improvements to be instituted in investment appraisal; record-keeping and follow-up procedures and guidelines of financial transactions of the SOEs; and accounting systems and procedures making possible efficient performance of all the above as well as other functions such as effective monitoring of performance (RoU, 1993:148-61).

A key element in the implementation of the PERDS program greater autonomy and accountability of SOE management was recognized as designing, implementing and operation of a SOE monitoring system to ensure that timely, pertinent, reliable and comparable financial and operational information be made available to all concerned decision-makers, both at the enterprise and at the ministerial levels (RoU, 1993:148-61).

Further, a performance evaluation and incentive system would be introduced to complement the SOE monitoring system for purposes of rewarding good and penalizing bad performers. In the short term, measures of performance would be based on such basic performance indicators as financial profitability and physical productivity with other, more complex, indicators, being devised and monitored as the system was refined at later stages in the process (RoU, 1993:148-61).

*1.2.2.2.4. Financial measures*

Government promised to take steps to improve the financial and especially capital structure not only of the retained SOEs but also the PSOEs, so as to provide both retention and privatization with the best potential for success. In all cases where these steps toward financial restructuring had a financial cost that could in the last resort be covered only by Government, on a one-time basis after which the SOE would seek further financial assistance form banks. This applied in particular to the resolution of situations characterized by excessive debt or deficient equity or working capital.

Government promised to create a restructuring fund to assist to the extent possible in the resolution of such situations, according to a set criterion to be put in place. For PSOEs, government would facilitate access to term finance through the banking sector by ensuring that commercial banks had such finance available for the private sector in general (RoU, 1993:148-61)..

### *1.2.3. Institutional framework and Movers: World Bank and Museveni*

In order to implement the SOEs Reform and Divestiture programme, Government put in place two arrangements. The first was a Divestiture Implementation Committee (DIC), chaired by the Prime Minister who reported to the Cabinet. It was responsible for implementing the Public Enterprise Reform and Divestiture programme (PERDS) and was empowered to take all the policy decisions and approve all actions required to implement the programme. The second arrangement was the PERDS Coordinator who reported directly to the Finance Minister (MoFPED) and implemented the programme on behalf of the DIC. The Coordinator would lead and coordinate the definition of specific action plans and their implementation. He also chaired the Policy Review Working Group (PRWG) that comprised the Permanent Secretaries of line ministries, which advised him **on** all relevant policies and programmes. He was directly assisted the co-coordinator by the Public Enterprise Secretariat (PES), and the Divestiture Secretariat (DS) (RoU, 1993:148-61).

To facilitate PE Reform, Government promised streamlining operating systems for: (a) corporate planning and budgeting as a basis for greater financial discipline, culminating in a phased introduction of the hard-budget constraint; and (b) a Management Information System (MIS) for facilitating autonomy and accountability of performance (RoU, 1993:148-61). While these bodies were put in place, other stakeholders namely World Bank and President Museveni played leading roles in shaping and influencing outcomes.

#### *1.2.3.1. Role of World Bank*

IFIs tried to impress President Obote in early 1980s with their policies in vain. In response, the IFIs withheld the money. The overthrow of Obote and incoming of Museveni turned the tide. Right from 1989, President Museveni allowed the IFI experiment without any reservations so long as they provided him with finance to run his government. In return, the IFIs lent Uganda to the tune of over US$ 5 billion in loans and also extended several grants in a period spanning close to a two decades. Towards the end of the two decades of Museveni's rule, IFIs and other donors cancelled all Uganda's debts. Hence, the IFIs dictated policies, such as maintaining interest rates at 5 % as well as liberalization of trade; and also financed the whole privatization project.

The IMF maintained inflation at 5 % per annum and also controlled credit to banks through various legislations such as financial institution statutes. Ironically, while IMF and World Bank concentrated on inflation and privatization since the 1980s, evidence indicated that developments in the financial sector had greater impact on the economy than the current donor focus. For instance, financial development and credit to the private sector impacted on growth in a mixed manner. While financial repression impeded growth, credit to the private sector promoted it. The implication of this was that government needed to set optimal targets for both growth and inflation programmes that optimized both. Evidence indicated that an increase in financial repression by 10 per cent led to stagnation by 7.2 per cent between 1967 and 1996 explained by low levels of diversification of the financial assets and instability. On the contrary, an increase in credit to the private sector by 10 per cent increased growth by 9.2 per cent over the same period (Kasule Juma, 1998:89). This impact on growth was explained by fact that higher credit contributed to both purchasing power as well as in investment. Despite the reality, policy dictated by donor community underplayed investment in preference for price stability.

Interestingly, inflation impact on growth in Uganda was not always negative with short and long-run effect contradicting, and with the long-run gains superseding the short-run losses. The effects of inflation on growth were in such a way that in the short run, an increase in inflation by 10 per cent reduced growth by 0.2 per cent. The negative effect was explained by erosion of profitability on investments, discouraging investments and reducing the level of economic growth. But evidence also indicated that, in the long run, inflation fuelled growth by 0.6 per cent between 1987 and 2000 (Nuwamanya, 2004). By restricting credit, the IFIs definitely sealed the fate of the privatization process.

Lack of access to cheap loans was the biggest restriction for upcoming entrepreneurs and hampered growth. Uganda had about 6% of its US$6b GDP available to the private sector as credit, less than half the average for a country at that level of development. The real interest rate on that borrowing of between 18 and 20% was higher than a low-income country ought to be charging. Without easy credit, most entrepreneurs started with savings and built their businesses with retained earnings till they got to 50 or 100 employees when they needed the bank support. Comparatively, Kenya performed better in providing financing to the small and growing businesses.[14] Hence, despite being the world's most entrepreneurial country, it lacked a cheap credit, thus dampening growth rates. While low inflation and macro-economic stability were the benefits of a good monetary policy, they should not be ends in themselves. The main criteria for judging monetary policy effectiveness should be the development of the country's productive capacity and improvements in living standards. The IMF tight monetary policy resulted into inadequate manufacturing and export growth rates below development targets.[15]

Lastly, and with respect to privatization, World Bank estimated SOEs sale proceeds at about US$500 million and a solution to the annual US$200 million subsidies to SOEs. Basing on the optimism of reducing the subsidies and a revenue haul, the bank supported the process beginning with a US$48.5 million loan in 2001.[16]

*1.2.3.2. Role of President Museveni*

Right from the start, President Museveni was key figure in the privatization process by likening non-performing SOEs to dead people that required burying, using the divestiture process to enrich party supporters, his relatives, supporting Asian investors, and operating bailout operations for selected PSOEs.

During the privatization process at least seven (9 %) of 74 SOEs were undervalued and sold to government employees[17] including ruling party supporters such as cabinet ministers, presidential advisers, National Resistance Movement (NRM) supporters and Members of Parliament (MPs). These SOEs included Lira Hotel, ENHAS, UGMC, White Horse Inn Kabale, Printpak, Soroti Hotel and UMI Soroti. Five SOEs were undervalued, one SOE defaulted, and one was undervalued and it also defaulted.

Such SOEs were either under-priced or they defaulted on payment explained by the politics that characterized allocations.

In addition to party supporters, Museveni's relatives helped themselves to the privatization spoils citing *nationalism*. Interestingly, in both cases, when *Ugandan nationalism* was cited, the first family of President Museveni was involved. Secondly, this *nationalism* rotated around very profitable SOEs such as ENHAS, UGMC and UCB. In the case of UGMC, that *Ugandan Nationalism* turned out to be speculation since re-sale took place on the very first day it was transferred. In both cases, the decisions also turned out to be inferior because the new owners lacked capital. While UGMC went into receivership, ENHAS offered an inferior service at Entebbe Airport charging a higher price compared to that offered in Kenya.

Lastly, the President also operated bailout operations to PSOEs explained as "strategic intervention in vital sectors generating employment and fighting poverty through helping businesses that generated wealth.''[18] The most notable and frequent beneficiaries were three Asians, namely, Mehta, Madhvani and Sekhar Mehta. So far government had sunk a total of US$95 million since Museveni assumed power, divided between Mehta Group (US$68 m) and Madhvani Group (US$27 m).[19] In contrast, government refused to bail out other PSOEs sold to local investors such as UAC, UMI Kampala, NYTIL and PAPCO that cried out for help. For instance, UAC needed Shs. 2 billion (US$500, 000) to fund her operations. On three occasions, it was bailed out to the tune of US$3 million (Shs. 3 billion). The fourth time, however, there was no alternative but to sell ENHAS shares in order to raise the money.[20] Several other PSOEs such as NYTIL, PAPCO and a private local Bank (ICB) solicited for support in vain. In only one case, the local exporter of hides and skins, government guaranteed the loan. These activities of Museveni negatively impacted on the economy and the privatization process in particular.

Both the media and opposition politicians explained this as a political strategy by Museveni to entrench himself in power. First, the media argued that government preferred foreign to local investors because in a crisis, the former were likely to support the government in power in order to protect their investments unlike the latter that could ally with the opposition to change government. But the opposition politicians argued that the government policy, besides being strategic, was also selfish because it was targeted to impoverish Ugandans who did not belong to Museveni's ethnic group (*non-Hima*) in general and non-clansmen (non-*Basita*) in particular so that they could respect them and also be easily governed.

In September 2007, A World Bank (WB) Country Economic Memorandum warned that Uganda's economic growth strategy could fail if corruption, cronyism, waste and inefficiency among others in public spending were not checked urgently. Museveni's leadership needed to develop a culture of compliance with regulations and accountability in the public sector. The report was launched by the Prime Minister Apolo Nsibambi at the Sheraton Kampala Hotel. The World Bank was, however, optimistic that the existing and future obstacles to growth could be overcome basing on the country's past record of recovery and growth which had been amongst the best on the African continent made possible by strong policy reforms and a stable macroeconomic environment. However, more effort was needed to move the country beyond recovery to sustained economic expansion. John MacIntire, the WB country director for Uganda and Tanzania, argued the need to fundamentally re-think the overall market-friendly approach to growth outlined in the PEAP and the Medium Term Competitiveness Strategy (MTCS). Maintaining the past gains from a stable macro management and trade-friendly policy reform were vital as well as support to private sector development. The country needed to maintain an investment climate that fostered market development and maintained prudent regulation to correct market failures. Government needed to avoid picking winners and certainly not to back losers.[21]

### *1.2.3. Divestiture and Nature of Property Rights in the Private Sector*

Several methods were used to transfer ownership of SOEs to the private sector. But the most used two were asset and share sales although other methods such as repossession and management buy out (MBO) were applied. Out of 74 firms divested, 23 (31%) were divested through asset sales; another 23 (31%) by shares sale; 7 (10%) by auction; 4 (6%) by MBO, contract and joint venture; 6 (8%) by pre-emptive rights; and, 4% through repossession. These methods were used for various reasons.

While asset sales were used mostly on industrial establishments and plantations, share sale was applied on trade and service enterprises mainly. In some instances, asset sale was used when they failed to get a core investor, as was the case with Coffee Marketing Board Limited (CMBL). CMBL could not be sold to a core investor as a going concern because its US $ 4 million capacity combined with private processors exceeded nine million 60 Kgs bags annually, which was twice the coffee production capacity of Uganda. As such, its assets were sold piecemeal. Repossession was applied on expropriated assets of Asians. These assets were returned to their owners free. Lastly, pre-emptive rights were used when the SOEs had private, minor shareholders who where given priority to purchase the remaining shares. Six firms where involved under this scheme. In one instance, however, that of Pepsi-Cola Limited, priority was not followed due to political preference in favour of some National Resistance Movement (NRM) party supporters. These diverse sale methods bred new and complex sets of ownership and property rights.

*1.2.3.1.Local-Foreign Ownership Pattern*

It was very difficult indeed to state exactly the number or types of property rights or ownership after privatization because of overlaps and cloning. An enterprise was capable of taking several forms including but not limited to local, foreign, state, mixed or joint ventures and private. For instance, local firms were either private or government. Some so-called private enterprises were parastatals (SOEs) in their countries of origin such as Eskom from South Africa that bought UEGCL. Lastly, all SOEs assumed a legal form on registration after privatization. The major ownership form, however, was local-foreign divide.

Being local or foreign owned became the major category of property rights after privatization. During privatization, the majority of enterprises were sold to either local or foreign buyers. Out of a total of 74 enterprises sold, 41 went to local, 27 to foreign buyers and 6 to joint ventures, representing 55, 37 and 8 per cent respectively.

The dominance of local over foreign ownership, in terms of numbers sold, was explained by political interference and a policy of local entrepreneur development. Government preferred Ugandans to FDI - a situation that tended to contradict FDI promotion efforts as shown in the sale of UGMC and ENHAS. In the case of UGMC, the highest bidder for the enterprise was UNGA, a Kenya-based food company but it was sold to President Museveni's brother, Salim Saleh, under a company called Caleb International on the argument that "Ugandaness" was the awarding criterion. Interestingly, however, Caleb International used foreign companies, namely, Tiger Oats and a South African company Number One Foods (PTY) Ltd as partners in securing the UGMC purchase. For ENHAS, the firm was[22] sold neither to the highest bidder (Dairo Air Services) that offered US$6.5 million nor to the second highest bidder, South African Alliance Air that, bid US$ 4.5 million citing pre-emptive rights.[2324] It was instead sold to Kutesa, a relative of the President by marriage. Saleh refuted allegations that he and Kutesa used their political influence to buy the airport ground handling company shares at the give-away price of Shs. 3.375 billion (US$1, 687, 500) when the company had been valued at Shs. 5 billion (US$2.5 m) and Shs. 8 billion (US$4m) by Ernest Young and DFCU respectively.[25] Interestingly, in several of these cases, when *Ugandan nationalism* was cited as the key consideration, the first family of President Museveni was involved. Secondly, this *nationalism* rotated around very profitable SOEs such as ENHAS, UGMC and UCB. In case of UGMC, that *Ugandan nationalism* turned out to be speculation since re-sale took place on the very first day it was transferred. In both UGMC and ENHAS cases, the decisions also turned out to be inferior because the new owners lacked capital. While UGMC went into receivership, ENHAS offered an inferior service at Entebbe Airport charging a higher price compared to what was being charged in Kenya. Despite buying more enterprises, locals paid less money on average per enterprise compared to the foreign buyers.

Although the majority of the buyers were local, foreigners tended to buy SOEs with higher values constituting 75 % of the total divestiture proceeds while the value of SOEs bought by locals accounted for 16 % (Ddumba and Mugume, 2001:39). While the locals paid a total of Shs. 39.68497 billion (US$19.8m), the foreigners paid Shs. 187.05 billion (US$93.5m). The difference in payments was explained by government policy of promotion of local entrepreneurs as well as the limited capital base of the private sector.

On the onset of privatization, government realized the need to support local buyers of SOEs. This was because all the local resources in banks were not enough to purchase the available assets. For instance in 1989, while total bank deposits were Shs. 46 billion [US$ 46 m], total SOEs assets were valued at Shs.200 billion [US$200 m] clearly showing that locals alone could not afford to purchase all the SOEs (Museveni, 1989). A detailed analysis of support is presented in **Chapter Three**. In the meantime, I present another ownership type - '*state*'.

*1.2.3.2. From state to 'State' Ownership*

At least two SOEs were sold to other local or foreign SOEs in a *privatization-drive*. This meant that essentially, the divestiture just replaced Central Government by another SOE or another state as in UCWL and UEDCL. First, before privatization Westmont Construction, a foreign company, owned 75 % and NH & CC (a SOE) and 25 % of UCL shares. NH & CC was involved in the construction of houses in the country. On privatization in 1999, the company's 500, 000 shares were offered for sale through public offerings (UCL Report, 2001:24**).** Out of a total of 60 % of the shares previously owned by government, over 45 % shares went to National Insurance Corporation (NIC) and National Social Security Fund (NSSF), both parastatals in the insurance and pension sectors respectively. In the study, UCWL is grouped as mixed state.

In the second instance, the giant electricity provider Uganda Electricity Board (UEB) was sold to ESKOM, another SOE of South Africa. Before privatization, UEB had a sole monopoly of generation, transmission, distribution and regulation of electricity in Uganda. On privatization in 2000, however, UEB was split into 4 companies, namely, Uganda Electricity Generation Company Limited (UEGCL), Uganda Electricity Distribution Company Limited (UEDCL), Uganda Electricity Transmission Company Ltd (UETCO), and a regulating body (ERA). ESKOM was a fully state-owned enterprise in South Africa but bought the Uganda Electricity Generation Company Limited (UEGCO). Essentially, this meant reducing the size of the Ugandan state but increasing the influence of the South African state in Uganda and also establishing a route of transfer of foreign exchange earnings since UEB was a net exporter of electricity.[26]

Unlike other countries, Uganda had left her power sector, the engine of economic growth, with private investors. There were many examples in and outside Africa to show that power sectors are best run by national governments and not private investors. For instance, in Africa, Algeria produces 6,468MW; Morocco 4,687 MW, Ethiopia 1,200 MW and South Africa 4, 0676 MW but their sectors were still being run by the national governments. Elsewhere, Canada produces 104,371MW, China 116,287 MW, Japan 268,287 MW and South Korea 54,673 MW but these governments still run their power sectors.[27] In the study, UEGCL is categorized as a private foreign-owned firm. These firms were transferred to a new 'state' ownership because the buyers were not precluded to invest in SOEs. Theoretically, however, ethical questions were raised

In summary, on the advent of privatization, the Ugandan economy was in a state of decay with scarcity of most of the essential goods needed in life; and the SOE sector was substantial. Government justified privatization on the grounds of budget deficit and efficiency in SOEs. The new ownership of the privatized enterprises was difficult to completely describe although the major ownership type was the local-foreign pattern. Next, I introduce what the study is about.

### *1.3 Problem formulation, objectives and significance*

The study set out to answer the research question: What has been the effect of privatization on budget deficit and firm performance, and what factors have influenced privatization effectiveness on firm performance in Uganda?

The reasons for undertaking the study are rooted in the fact that although three studies exist on the privatization assessment by ROU (1993), UMA (2000) and Ddumba-Ssentamu and Mugume (2001), they tended to emphasis fiscal impact and firm performance but ignored what makes privatization to be effective including issues such as corporate governance, regulation and structure that Galal *et al* (1994) found important in the monopoly environments. To a limited extent, UMA (2000) and Ddumba-Ssentamu and Mugume (2001) briefly looked at motivation and workers' conditions on top of the fiscal impact and firm performance change. As such, this study contributes to Ugandan privatization assessment by focusing on fiscal impact and firm performance by using updated data from 1992 to 2003 and also investigates the factors that influenced privatization effectiveness and therefore firm performance such as corporate governance, regulation, structure and motivation. Hence, empirical work contains new micro-level information based on data from enterprise official records from 1986 to 2003.

In the study, privatization was measured in two ways: first as ownership patterns of state-mixed-private (S_M_P) by comparing either privatized with state firms (S_P), or a comparing a combination of state with mixed against privatized firms (S/M_P), or comparison between mixed and private firms (M_P). Second, privatization was also measured as the movement from state ownership (s) to private (p) being before and after privatization. On the other hand, firm performance changes were approximated by three variables, namely: total factor productivity (TFP), returns on capital employed (ROCE) and return on sales (ROS) and their hybrid APCs and RPCs. Both regulation and structure were measured nominally by denoting different regulatory tools and industrial structure numbers from one (1) to (4) in each case respectively. Corporate governance was measured in two ways: as the processes by which companies are directed and controlled. It is the set of processes, customs, policies, laws and institutions affecting the way corporations are managed broken into directing, administering and controlling. Corporate governance was alternatively estimated as issues of accountability and fiduciary duty, essentially advocating the implementation of guidelines and mechanisms to ensure good behaviour and protect shareholders. Lastly, motivation was approximated by salary, fringe benefits as well as job security.

The following research questions and hypotheses, which the data was specifically collected to answer, shaped the study.

- What is the nature of property rights in the private sector? This question is answered in the ''introduction and theoretical framework'' in **Chapter One**.
- What are the linkages between public and private enterprises in Uganda? What were the constraints of SOEs on the budget? What happened when PSOEs become unviable? These questions are answered in **Chapter Three** on Fiscal impact of Privatization.
- What are the legal aspects of management in the public enterprises on one hand and the private sector on the other? What are the transaction costs of the negotiations between the managers and the bureaucracy? Could have an

internal restructuring been carried out? These questions are answered in Chapter Four on ‘corporate governance in the public and private sectors in Uganda;’’

- How is the private sector regulated? What is the impact of regulation on firm performance change? These questions are answered in the Chapter Five.
- What are motivation (salary, fringe benefited, and job security in the private and public sectors in Uganda? Could some wages or interest have been eased in some ways? These questions are answered in the Chapter Six on motivation
- What happened to the performance measured by efficiency and profitability after privatization? This question is answered under ‘’Privatization, Ownership and Performance” in Chapter Seven.

The study expects the answers to the above questions to be as follows:

- Given the history of nationalizations, I expect the property rights in the private sector to be dominated by the local owners.
- The linkages between public and private enterprises and constraints of SOEs on the budget after privatization are expected to be similar to those before privatization given the various obstacles faced by business in Uganda? As such, I expect PSOEs to be bailed out when they become bankrupt.
- I expect drastic changes in corporate governance in the fully privatized firms. Similarly, I also expect the transaction costs also to fall considerably after privatization in Chapter four.
- I expect regulation took a very extreme position of opening up and dismantling tariff and non-tariff barriers with the advent of WTO. The null hypothesis (Ho) for each of these variables is that there is no difference in firm performance caused by structure or regulation resulting from a change in ownership changes or that state firms perform as well as the private ones. The alternative hypothesis (Ha) is that there is there is a difference in firm performance arising from ownership changes associated to structure or regulation.
- I expect the conditions of hiring and firing in the private sector to be poorer compared to the public sector? This is because the government has since 1989 supported investors at the expense of workers. At the same time, I expect that

there were possibilities of easing wages or interest in an attempt to restructure SOEs.

- Lastly, the null hypothesis (Ho) is that there is no difference in performance caused by ownership changes or that state firms perform as well as the private ones. The alternative hypothesis (Ha) is that there is there is a difference in performance caused by ownership changes or that state firms (SOEs) perform differently from PSOEs ones in Chapter Seven.

### *1.3.1 Objectives*

The study targets two separate sets of outputs including:

i) To investigate the effect of privatization on:

- . Subsidies, Public-private linkages; budget deficit and taxation;
- . Firm performance change in general, FDI and sectors in particular; and

ii) To investigate the determinants of privatization effectiveness including corporate governance including transactions costs, regulation, structure, motivation on firm performance.

### *1.3.2 Significance*

This study is important in two ways as a showcase and to serve policy purposes. In the first aspect, Uganda has since the early 1990s till recently been a World Bank/IMF showcase. The country experienced high growth rates averaging 5 % since the early 1990s. The study is expected to document leading sectors such as foreign-local and state-mixed-private ownership.

Secondly, the study addresses key issues of pricing, efficiency and budget deficits in the privatized enterprises. Results of the study are expected to show the exploitation of consumers by private monopoly producers. The study identifies the role of the state as the custodian of justice and rights. It is interesting to demonstrate how the extent of monopoly power of the privatised enterprises infringes rights and justice in this era of democracy termed “popular capitalism”. All of these are expected to contribute to the perception of Uganda’s political and policy process as it affects industry in terms of regulation, control and taxation strategies to promote democracy, equity and economic growth.

### *1.4 Structure of the Thesis*

The study is divided into a theoretical framework; chapters extrapolating on methodological and empirical questions; and, a summary chapter. Chapter One is the introduction. It looks at the historical development and contribution of the SOEs sector to development of the Ugandan economy; the problem statement, objectives and significance of privatization; and the nature of the new property rights. It gives a theoretical discussion of privatization. It also outlines the necessary factors for effectiveness of privatization such as corporate governance, regulation, structure, and motivation. Chapter Two is the methodology and shows how the variables were estimated and analyzed. Chapter Three has two parts of linkages between the private and public sectors and relates SOE subsidies to the budget deficits. Chapters Four to six are determinants of privatization. Chapter Four, in particular, is about corporate governance. It explores differences in management between the public and private sectors. Chapter Five covers post-privatization regulation and its impact firm performance. Chapter Six is about motivation. It also investigates the relationship between firm performance and motivation**.** Chapter Seven looks at the impact of privatization on firms' performance at the micro level and also FDI and sector on firm performance. While Chapter Three investigates effect of privatization on budget deficits; chapter seven explores effect of privatization on the efficiency of firms. Lastly Chapter Eight is the discussion of the study. A reader who is short of time can read Chapter Eight to get the gist of the entire study.

### *1.5 Theoretical Analysis: Privatization, Budget Deficits and Firm Performance*

There are several reasons why growth is preferred as a strategy. Through manufacturing, it offers higher value added, and the prices of manufactured goods are fairly more stable than primary products, it has higher employment potential compared to agriculture, it promises higher family incomes and improved quality of life especially for the growing numbers of workers who have little land (Pedersen and McCormick, 1999:109). Only a few countries with small populations and great oil or natural resource wealth like Libya and Kuwait can achieve a very high per capita income without industrializing (Riendel, 1988:6). Over the last sixty years, a shift occurred on the thinking of which, between state and the private sector, should be the primary mover of this growth.

Privatization targets broadening the scope of the private sector, or the assimilation by the public sector of efficiency-enhancing, private sector techniques (Adam, Cavendish, and Percy Mistry, 1992:6). It involves either divestiture or reform of state-owned enterprises (SOEs). While divestiture involves the sale of SOEs to the private sector through private placement, public offerings or competitive bidding by a strategic investor; public enterprise reform on the other hand allows private operators to compete in sectors that had been the exclusive domain of the SOEs (de-monopolize); break up a monopoly into various branches of activities to stimulate competition; and transfer of the management of SOEs from public to private hands through contracts, leases or concessions (Otobo Eloho, 1998: 23; Rwekaza Mukandala 1998:29; Cook and Kirkpatrick, 1988:4). What were the origins and trends of privatization?

### *1.5.1. The Genesis of Privatization: From State to the Private Sector*

Before 1980s, privatization was not an issue. Instead, a crusade basing on modernization theory recommended a very strong state intervention in the development after the successful interventions of the great depression of the 1930s. It was thought that newly independent countries of Latin America, Africa and Asia *lacked their own skilled manpower, entrepreneurs, technical expertise, infrastructure, other supporting services and private capital formation adequate to meet the needs of an accelerated national development*. During the 1950s and 1960s, it was thought that what was required in development was to bridge the *gaps*.[28] In order to identify the gaps, there was need for National Development Plans (NDPs).[29]Statism and planning were enthusiastically embraced in LDCs that saw it as a reaction against colonialism, the political appeal for development, rapid progress elsewhere and donors who demanded accountability for the use of funds. For instance, statism and development planning offered the African leaders chance to reverse the negative effects of colonialism where LDCs acted as markets or consumers of European manufactured goods and sources of cheap minerals, agricultural and wood commodities (Hyden, 1995:1; Ayitteh, 1994:149; Hollis Chenery, 1971). Today, with the exception of the HPAEs, most LDCs still lack their own skilled manpower, entrepreneurs, technical expertise, infrastructure, other supporting services and private capital formation adequate to meet the needs of accelerated national development despite heavy state intervention in the economies in the 1960s and 1970s. The mistakes termed '*government failures*' made during state interventions era paved the way for rolling back the state and privatization.

### *1.5.2. The state and Development*

In 1970s, utilitarianism turned to government through the public choice theory. It was theorized that although it is assumed that the government, politicians, bureaucrats, voters and interest groups pursue public interest to secure the state, this does not always occur and instead these groups are motivated by self-interest. First, governments are neither democratic nor do they act benevolently to secure the public interest, provide public goods or maximize welfare of their citizens. Instead, they consolidate themselves in power. Governments are not committed to any particular policies and they change them in order to maximize votes. Yet still, even if the state is well intentioned, it is not always an expert and in the process, and it just muddles through. It is also possible for government to fail due to the several uncertainties and limited capacity of institutions in considering large number of alternatives within a short period of time. On the other extreme, government may set itself a limited task to perform. Second, both voters and politicians are rational beings who seek to maximize their own welfare. Third, bureaucrats are also rational beings who seek to maximize their own personal, material gains and welfare such as income, power, prestige, votes, patronage, own convenience and popularity. Bureaucrats try to improve their own welfare in terms of salaries, esteem and influence by seeing to it that their offices become as large as possible; they make deliberate, aggressive budget demands and expansive re-organizations. They have neither the will nor the motivation to economize and are characterised by wastefulness of national resources through unnecessarily large budgets. Government agencies are different from business units; they continue to expand without any attempt at minimizing costs due to their monopoly positions. In order to eliminate the waste by governments, there is a need to keep down the size of the public sector [Feigenbaum and Henig, 1994:188; Dearlove, 1987**;** Leif, 1991:3-6; Downs, 1957; Killick Tony, 1983; Vickers and Yallow, 1988; D. Lal, 1993]. This was the basis of privatization, which started with Britain in 1981. The public choice theory has been critiqued on management roles.[30] Stretton and Lionel (1994:131) maintain that voters do not target material gains from elections but ideology; self-expression; family, racial, party affiliations; religious orientation, nationalism and sentiments. Despite the empirical evidence, more theoretical attack spread to state involvement in public enterprises.

### *1.5.3. Privatization and Budget Deficits*

Supporters of privatization suggest a wide, distinct rift between public and private sectors whereby the former is in the *political* and the latter in the *economic* arenas. They also suggest that the discipline of the private sector emanates from take-over, mergers and bankruptcy that may force shareholders to withdraw their shares if the enterprise were badly managed (Madsen, 1988). While private firms rely purely on private finance, and control is left to the shareholders and creditors who bear all the risks, SOEs are financed directly from the treasury and do not have access to private financial channels. Hence, loss-making SOEs do not close but are bailed out. Privatization, therefore, targets cutting the umbilical cord linking the state (treasury) from the enterprises and improving the budget deficits (Roland, 1994:1164). This theory of budget deficit-reducing privatization has been refuted due to the existence of public-private linkages.

Opponents of privatization have refuted the uniqueness of the private sector. Commander and Killick (1988:111) argue that apart from the contractual transfers of tax supports and regional subsidies there exist other hidden transfers linking up the public and private sectors. They maintain that the state continues guaranteeing loans to the private sector particularly for more risky or subcontracted operations. Besides, in LDCs where most SOEs are loss-making, divestiture is only feasible if combined with privileges to buyer like monopoly of the market and tax concessions. In many LDCs, there are high degrees of inter-independence between the public and the private sectors. In others, the private sector relies on state contracts for its accumulation, either through the supply of goods or services to the state or from the procurements of production sub-contracts. Joint ventures exist in several countries. The private sector is in search of a state that will nurture, re-enforce, insure and subsidize its development.

Gibbons (1996:769) also refutes a purely private sector and exposes several examples of public-private linkages in both Africa and Europe including:

i) Operational vertical and horizontal complementarities;

ii) State connections in enterprises at all state levels with the private enterprise;

iii) State support in terms of credit, land, subsidy, tariff barriers, guarantees of monopoly market, inputs and state contracts etc;

iv) Illicit state connections involving siphoning off of start-up capital, corruption of taxing authority, continuous shielding of wholly illegal activities from police intervention; and,

v) State as the employer of the owner of the enterprise. Even if linkages between state and private sector did not exist, budget deficits would still exist in many LDCs due to structural features of the world economy. Empirically, I investigate public-private linkages and their effect on the budget in Uganda in Chapter Three.

Methodically, the effect of privatization on the budget depends on how the sales proceeds are treated. Usually, the proceeds may be applied in two ways. The first is that the sales are taken as a flow, revenue or an income for spending. The second is when the sale revenue is taken as an asset to generate future incomes. In the latter case, the asset is expected to generate streams of incomes over a long period of time and assessment of its effect must be through use of net present values (NPVs) or internal rates of return (IRR). In Chapter Three, I consider the sales revenue as a flow.

Available empirical evidence on privatization and budget deficit shows mixed results in DCs and minimal results in LDCs. In DCs, the deficit increased in Hungary but fell for for utility companies in the United Kingdom. In East Germany, SOEs managed to move from the treasury to bank finance (Bos, 1993; Bager, 1993; Yallow, 1993). In the LDCs, only Mexico managed to reduce the budget deficit.

For instance, a general problem facing privatized firms in transition economies was that of raising capital to ensure their economic survival especially if purchased by insiders (locals with a limited capital base) leading to a high level of liquidations. In such a case, government may prefer to *subsidize many of its privatized firms to avoid liquidation*. This action could mean either re-nationalization of a partial nature or *guarantee bank loans* to privatized firms (PSOEs) to solve credit rationing (Roland, 1994:1163). Empirically, evidence from China and Africa supports the constraints theory.

In China, prior to the growth of rural industries, availability of knowledge and resources from overseas Chinese who supported market competition, institutional change and financial pressures made privatization work (Rawski, 1994:271). In Africa, however, Campbell and Bhatia (2001:85) report mixed results from privatization. In the majority of firms, additional investment after privatization exceeded the sales values particularly in PSOEs sold to foreigners. A few enterprises that closed down were constrained by insufficient funds, difficulties in raising additional capital and competition in the liberalized markets.

In Uganda, Ddumba and Mugume (2001) consider the effect of privatization and tax revenue on the one hand and firm performance on the other. They, however, do not calculate the extent to which SOE subsidies contributed to the deficit, although they mention that government made substantial savings from privatization. In addition, they do not show the linkages that still existed between the state and private sector. In Chapter Three, I show the extent to which SOE subsidies contributed to the deficit before and after privatization and also how the state continues to intervene in the PSOEs.

### *1.5.4. Privatization and Corporate Governance*

Current preoccupation with corporate governance is due to two events: The first was the East Asian Crisis of 1997 that saw the economies of Thailand, Indonesia, South Korea, Malaysia and The Philippines severely affected by the exit of foreign capital after property assets collapsed. The absence of corporate governance mechanisms highlighted the weaknesses of the institutions in these economies. The second event was the American corporate crises of 2001-2 which saw the collapse of two big corporations, Enron and WorldCom, and subsequent scandals and collapses of Arthur Andersen, Global Crossing and Tyco.

Corporate governance is a multi-faceted subject that has come to mean two things. On the one hand, it is the processes by which companies are directed, administered and controlled. It is the set of processes, customs, policies, laws and institutions affecting the way corporations are managed broken into directing, administering and controlling. Management is the act of directing and controlling a large group of people for the purpose of coordinating and harmonizing the group towards accomplishing a goal beyond the scope of individual effort and encompasses the deployment and manipulation of human, financial, technological, and natural resources.[31] In the study, I represent corporate governance by objective setting; the size and composition of the board, how it is appointed, and how it functions. The second meaning of the term refers to a field in economics, which studies the many issues arising from the separation of ownership and control. This is a relationship among the stakeholders and the goals for which the corporation is governed. While principal players are the shareholders, management and the board of directors, the minors include employees, suppliers, customers, banks and other lenders, regulators, the environment and the community at large. An important theme of corporate governance deals with issues of accountability and fiduciary duty, essentially advocating the implementation of guidelines and mechanisms to ensure good behaviour and protect shareholders.[32] In this section, I represent corporate governance by transaction costs.

The concerns for corporate governance for this study, however, arises from the argument by Galal *et al* (1994:10) that in uncompetitive market situations, the effect of privatization depends on how the private sector is managed. Several other writers explain why privatization triggers off performance change. These include the differences in objectives, board appointments, and transaction costs (Cockery, 1992; Galal *et al*, 1994; Larson, 1997, Eggertson, 1990; Toye, 1995), which are elaborated on immediately.

*1.5.4.1. Corporate Objectives*

Unlike the private company that targets profit, the SOEs have several roles they perform in the economy including producing or provision of a public good, distribution of the national cake through balanced regional development, regulation to bring about fairness and equity, social welfare by hiring a large number of redundant workers, and planning for the economy. Larson (1997:131-3), therefore, stresses that privatization is based on a wrong assumption that the relationship of the state to its citizens is basically similar to that existing between private business and its customers. On the contrary, the differences between private and public in any country are not an accident but intended because governments unlike business enterprises need to offer equal treatment, fairness and equity to people and not necessarily to make a profit out of each and every venture. Hence public bosses cannot have a customer focus in the same way that private enterprises do.

The performance of SOEs, therefore, is not a result of ownership *per se* but lies in both the objectives of public and private enterprises. Whereas private enterprises pursue profit, SOEs may pursue whatever the government wants and is able to finance such as the promotion of social welfare by not exploiting monopoly position or by hiring a large number of redundant workers (Galal *et al*, 1994:10). Privatization materially affects management behaviour with important implications on efficiency. Ownership is, hence, important because it affects performance indirectly through management and the objectives of owners of the firms and the systems of monitoring managerial performance (Vickers and Yallow, 1988**)**. So ownership is important, but observers have to look at objectives more than the mere ownership set-up.

### *1.5.4.2. Who Appoints the Board, its Functions and Size*

Board size and who appoints members were two major issues influencing differences between the public and private enterprises in the world. Whereas Board size in the private sector company is normally small and is appointed by shareholders who have a quantifiable stake in the enterprise and the Board is responsible for seeing the business of the company is conducted in their best interests, this was not the case in SOEs. Public enterprises keep large boards comprising members *who are appointed by politicians.* . The Board then appoints the chief executive of the company who is responsible for the day-to-day operations of the enterprise. Second, in the private sector, the traditional view of the main functions of the board includes three activities of establishing corporate objectives and strategies of achieving them, monitoring and evaluation of the enterprise performance and hiring and firing of chief executives (SHOME) (Corkery, 1992). The big boards can partly be explained either by the multi-purpose nature of SOEs and the need to include as many disciplines as possible on the one hand, or the need for representation of the various stakeholders on the other.

In the SOEs, however, ownership with quantifiable investment is difficult to identify. Control of enterprise operations is complicated as a result of difficulties in identifying ownership that may be represented by groups such as the community, electorate and taxpayers in parliamentary systems. Control is difficult because whether the Board of a public enterprise reports to a Minister, to Parliament or governing party, it is still in effect reporting to another representative body. At the same time, problems crop up in the governance structure of public enterprises. Several groups including executive management, board members, political heads of the parent ministry, civil servants and other officials of the other organs of central government such as the finance ministry have a role in policy decisions of the individual enterprises. The nature and degree of interest of each group differ and thus create inconsistencies in objectives (Corkery, 1992).

Empirically, I investigate who appoints the board members, size, and functions of the board in SOEs in Chapter Four on corporate governance**.** The agency theory, however, argues that those management problems in firms are not unique to SOEs alone but occur even in private firms that separate ownership from management.

*1.5.4.3. Transaction costs*

The most important issue was not ownership *per se* but rather the separation of management from ownership. Although economic analysis normally assumes that the main objective of private enterprise is to maximize profits, the separation of ownership from management can make this impossible. The existence of shareholders and managers brings about the problems of principal-agent relationships (Rees, 1985).[33] An agency relationship is established when a principal delegates some rights over a resource to an agent who is bound by a contract to represent the principal's interest in return for payment. The problems arise from the differing objectives and availability of information of the shareholders and managers (Eggertsson, 1990). While the principal tries to induce the agent to act in the principal's interests, he lacks information about the circumstances and behaviour of the agent, which causes a monitoring problem (Vickers and Yallow, 1988). Since the agent collects more information, he is in most cases more knowledgeable than the principal, causing "opportunistic behaviour" and agency costs. One solution to opportunistic behaviour was to carry out audits or sharing profits (Eggertsson, 1990). Empirically, I investigate the monitoring and transaction costs in public and private sectors in Chapter Four. But one observable effect of separation of ownership from management are agency or transaction costs.

*1.5.4.4. Transaction Costs Arising Out of Agency*

Transaction costs involve finding out what the relevant prices are, negotiating and concluding contracts and monitoring and enforcing these transactions. They are information, travel and communication, hospitality, default risks and contract enforcement costs. A common theory is that transactions cost increase with decreasing clarity of property rights (Harriss *et al*, 1995; Harriss-White, 1995).[34] Basing on the Harriss theories, it is argued that privatization reduces transaction costs. Alternatively put, SOE transaction costs exceed those of the private sector. Transaction costs can be measured using cost-effectiveness analysis comparing market with government. This is explained by the fact that the private sector is more cost-effective than SOEs or government. If government operations turn out to be cheaper, this rare situation then requires explanation. The bigger transaction costs of government can be explained by the budget-maximizing behaviour of the bureaucrats already explained.

Comparatively, the DCs are in a better position to enforce contracts than LDCs because of an effective judicial system and well established bodies of law and agents like lawyers, arbitrators, mediators and cases can be settled on the basis of merit (North, 1990:52-3). There was no similar evidence in LDCs. Empirically; I investigate the effect of privatization on transaction costs in Chapter Four. But differences between SOEs and private firms are not always due to internal factors of the firm, but may also be due to industrial structure in which the firm operates.

*1.5.5. Privatization, Regulation[35] and Firm Performance*

Galal *et al (*1994) argue that for both DCs and LDCs privatization bears automatic payoffs in competitive markets; but in non-competitive markets it dependents on how the private sector is regulated.

In the private sector, regulation[36] performs social functions of *connectivity* between one private provider of a service and another, creating a level playing ground like granting licenses to old and new entrants, *correcting market failures* and *ensuring equity, and health, environmental and other social reasons*. In case of social regulation, individual companies may not consider the total social costs of a firm necessitating intervention to correct the anomaly [Guasch and Hahn, 1999:2; Otobo, 1998:24].

The empirical evidence of the 1990s between privatization and regulation is contradictory. On the one hand, Sunita Kikeri *et al* (1992) argue that privatization yields immediate positive benefits to productivity and consumer welfare in competitive environment in the tradable sectors like industry, airlines, agriculture and trade in the DCs (column 2, Table 1.1). On the contrary, the sale of enterprises in non-competitive markets like natural monopolies in the utility sector such as water, power, and telecommunications requires a property, competitive, corporate, dispute resolution and environmental law, and consumer protection regulatory system (column 3, Table 1.1). A regulatory framework is necessary to separate competitive activities, establish a tariff regime, clarify service goals, minimize costs and monitor the process.

**Table 1 1 Privatization Implementation, Decisions and Performance**

| Country Conditions | Enterprise Conditions (Market Conditions) | |
|---|---|---|
| | Competition[37] | Imperfect Competition |
| High Capacity to regulate; market friendly.[38] | **Decision**:_Sell | **Decision**: Ensure or install appropriate regulatory environment; Then consider sale |
| Low capacity to regulate; Market unfriendly. | **Decision**: Sale, with attention to competitive conditions. | **Decision**: Consider privatization of management; Install market friendly policy framework; Then consider sale. |

*Source:* Sunita Kikeri *et al*, 1992.

Despite the 'intervention' aura, regulation was not always a job by the state and self-regulation has taken place in insurance, professions like medical, legal, the press and aviation. When self-regulation occurs by transferring power to a trade body or voluntary association, it can be beneficial in reducing government costs, and public bureaucracy, and places in office people who know the activity (Madsen, 1988:186-7).

Water Science and Technology Board (WSTB, 2002:87) explained why regulation could cause change in firm performance. It is argued that recent regulation tends to focus on performance issues and their limitations in producing performance-incentives, performance-based rate-making, or benchmarking, price-caps, that may not only change the regulatory environment for privatization but also create avenues for utilities to benefit from innovation and efficiency.[39]

Economic efficiency is promoted if utility rates more accurately reflect the true cost of services. Rate structures can improve economic efficiency by reflecting marginal costs, including the opportunity costs of the good associated with alternative supply options. Private contract providers have incentives to increase operational efficiency. State regulation requires cost-based pricing to ensure that cost savings from privatization will be passed along to ratepayers (WSTB, 2002:87. In this way, regulation may influence performance change in a forward direction. But this is not always the case.

However, there is no assurance that utilities will pass along such savings. In such a situation, the prospect of higher rates may discourage asset privatization and can contribute to some instances of "reverse privatization," or "municipalization". (WSTB, 2002:87). When this occurs, regulation will influence performance change in a *backward* manner creating a cause-effect relationship.

Empirically, I investigate the nature and existence of a relationship between regulation and performance change. I estimate regulation nominally by four types of regulation including tariffs (TBs) and non-tariff barriers (NTBs); minimum financial requirements (MFRs) such as MCR and CRR; price control and licensing. I also discuss self and public regulation in Chapter Five.

### *1.5.6. Privatization, Structure and Firm Performance*

The differences between public and private enterprises are in such away that in monopoly markets, the predictions of theory are ambiguous (indeterminate) and depend on how the private sector is structured (Galal *et al*, 1994:11). This is so due to the fact that privatization is assumed to enhance both productive and allocative efficiencies, leading to lower-cost production (production efficiency) and forcing down of consumer prices (price efficiency) so that they are closer to the marginal cost of production ($p \cong MC$) (Christopher Adam *et al*, 1992:12). This, however, may not always occur as a result of lack of competition.

In imperfect competition, producers try to keep things a little scarce and charge prices above marginal costs (P>MC) with intention of maximizing profit (MC=MR). Hence, society gets less of the product at a higher price than it should be (Samuelson, 1976:500). The restriction of output and charging higher prices causes divergence between efficiency and profitability. While profitability increases, efficiency falls due to lower innovations (Akyuz and Gore, 1994:3; World Bank, 1993: 215-7).

Market structure (market form) which is measured by the concentration ratio of an industry is used as measure of the relative size of leading firms in relation to the industry as a whole. One commonly used concentration ratio is the *four-firm concentration ratio*, which consists of the combined market share of the four largest firms, as a percentage, in the total industry. This may also assist in determining the market form of the industry. In general, the N-firm concentration ratio is the percentage of market output generated by the N largest firms in the industry. Higher concentration ratios were related to greater market dominance of the leading firms. Market forms can often be classified by their concentration ratio. Listed, in ascending firm size, they are:

- Perfect competition, with a very low concentration ratio,
- Monopolistic competition, below 40% for the four-firm measurement,
- Oligopoly, above 40% for the four-firm measurement (such as car manufacturers);
- Monopoly, with a near-100% four-firm measurement. These characteristics are summarized in Table 1.2.

**Table 1 2 Basic Market Structures**

| Market Structure | Seller Entry Barriers | Seller Number | Buyer Entry Barriers | Buyer Number |
|---|---|---|---|---|
| Perfect Competition | No | Many | No | Many |
| Monopolistic competition | No | Many | No | Many |
| Oligopoly | Yes | Few | No | Many |
| Oligopsony | No | Many | Yes | Few |
| Monopoly | Yes | One | No | Many |
| Monopsony | No | Many | Yes | One |

*Source*: http://www.wikipedia.org

The imperfectly competitive structure is quite identical to the realistic market conditions where some monopolistic competitors, monopolists, oligopololists and duopolists exist and dominate the market conditions. These somewhat abstract concerns tend to determine some but not all details of a specific concrete market system where buyers and sellers actually meet and commit to trade.

The correct sequence of the market structure from most to least competitive is perfect competition, imperfect competition, oligopoly, and pure monopoly. The main criteria by which one can distinguish between different market structures are: the number and size of producers and consumers in the market, the type of goods and services being traded, and the degree to which information can flow freely (see Table 1.2).

Market share may differ from market dominance. Although there are no hard and fast rules governing the relationship between the two, the following are general criteria:

- A company, brand, product, or service that has a combined market share exceeding 60% most probably has market power and market dominance.
- A market share of over 35% but less than 60%, held by one brand, product or service, is an indicator of market strength but not necessarily dominance.
- A market share of less than 35%, held by one brand, product or service; neither shows strength nor dominance and cannot raise anti-monopoly concerns of government regulators.

*1.5.7. Privatization, Motivation and firm Performance*

Galal *et al* (1994:11) argue that in uncompetitive situations such as under monopoly, the theoretical predictions of the effect of privatization on firm performance are ambiguous and depend on how the public sector is motivated. This is explained by the fact that SOEs are normally overstaffed, constantly increased labour costs, and employ uneconomic working practices that emanate from the monopoly positions (Madsen, 1988; Nellis, 2002).

Motivation is having the desire and willingness to do something. A motivated person can be reaching for either a long-term or a short-term goal. In the work place, motivation has been developed by Herzberg. Herzberg (1968) in his "Motivator-Hygiene Theory' distinguishes between **Motivators** and Hygiene factors**.** He argues that Motivators include things such as challenging work, recognition, responsibility which give positive satisfaction. On the other hand, Hygiene factors included aspects such as salary, fringe benefits, job security, and status which do not motivate if present, but if absent would result in de-motivation. The word Hygiene is used because, like hygiene, the presence would not make you healthier, but absence can cause health deterioration. A study of over 50 companies found relationship between low hygiene and low employee engagement. Employees consistently recorded low scores against management - Employees were optimistic about success but happy to complain about leadership since their hygiene factors had not been addressed. The implication was to sort the hygiene, then drive the motivation. Empirically, I measured motivation using salary, fringe benefits, and job security in Chapter Six on motivation and firm performance.

Hygiene factors can cause dissatisfaction if missing but do not necessarily motivate employees if increased. They have mostly to do with the job environment and notable only when they are lacking and are extrinsic from the job itself. They included salary, company policy and administration, supervision, working conditions, interpersonal relations, status, and job security. Hertzberg called them hygiene factors because they prevent dissatisfaction only when present instead of increasing satisfaction; just as hygiene prevents disease only when present rather than increasing well-being.[40]

Wages are often the key difference in efficiency between the public and private sectors with former especially vulnerable to increases in labour costs that are then passed on to the taxpayers. These are due to monopoly positions of most of these SOEs and the unusual powers given to trade unions by the state as SOE owner. Unions in the public sector enjoy a higher leverage than those in the private sector. The public sector is characterized by restrictive work practices, agreements specifying that only certain tasks be performed by certain classes of employees and that **unions** are able to limit work at unpopular hours for their members. For instance, in Britain the unions in the public sector prohibit private firms from using use of part-time labour to cope with peak demand forcing public firms to hire permanent staff to handle extra demand. The private sector lacks such leverage since prices have to be kept competitive (Madsen, 1988:23-4).

Available evidence on the effect of privatization on motivation shows that in Hungary and the United Kingdom wages increased in the executive ranks but not for other cadres (Bos, 1993; Yallow, 1993). Empirically, I investigate how privatization affected wages, fringe benefits, and job security in Chapter Six on motivation. I particularly investigate whether they were missing before or after privatization and also attempt to trace the impact of motivation on firm performance.

### *1.5.8. Privatization and Firm Performance*

Empirical evidence of the effect of privatization on firm performance is inconclusive. At times it has no effect (Omran 2002; Yallow, 1993), positive (Boardman & Vining, 1989; Boycko, Schleifer & Vishny, 1993) and at times negative (Aharoni, 1986; Caves and Christensen, 1980). All these studies confess that privatization is more successful in trade and services than other sectors. The evidence creates a reason to consider sector as a factor influencing privatization effectiveness.

#### *1.5.8.1. Are Local firms Inferior to Foreign-owned Ones?*

Graham (2000:88) suggests that foreign firms may be superior to local ones in aspects like out-sourcing foreign markets, superior goods, processing technologies, superior management skills, and access to markets not possessed by the local firms. Empirically, in Chapter Seven, I investigate the effect of FDI on firm performance change, and also whether sector and local-foreign ownership matter in post-privatization performance change.

#### *1.5.8.2. Sector*

Studies in Eastern Europe have linked privatization with industrial development or structural transformation. The studies show that SAPs in general and privatization in particular in a fairly industrialized setting can either leave the industrial base the same or reduce it in preference for services and other sectors. Particularly, the studies show that with the exception of Czechoslovakia, all other countries of Bulgaria, Poland, Hungary and Rumania that undertook privatization in late 1980s and early 1990s resulted into a shift from industry to services and other activities. Between 1988 and 1991 following privatization in these Comecon countries, industrial shares in GDP were constant in Czechoslovakia at 72 %, but fell for Bulgaria 63-61 %; 31-28 % in Hungary; 44-33 % in Poland; and 54-46 % in Rumania. In all instances, except Czechoslovakia, services improved but the agricultural was not conclusive - at times falling, constant or improving. In the relatively industrialized Czechoslovakia, agriculture was constant, improved in Bulgaria and Poland where the land belonged to the people but fell in Hungary where the industrial development was lowest (Roman, Rapaczynski, Earle *et al*, 1993:4&41). All the Comecon countries had a relatively better industrial base of at least 30 % of GDP compared to Uganda with 20 %. These findings have two limitations of the short period considered, as well as the nature of growth path.

First, the period between 1988 and 1991 was too short to rely on. Second, and of greater importance, was that the sector's change was characteristic of growth path whereby economies moved from an agricultural setup, to industry and then services. Attributing sector changes solely to privatization or SAPs was simplistic and unrealistic. But there were other reasons for sector changes during reform.

Hoj *et al* (1995:2) explain the superiority of services to industry as due to lack of exposure to international competition, strategic advantage, and specific market outlets. First, while trade is effective in shaping competition for manufactured goods, many services are not exposed to a high degree of competition. Therefore, de-regulation and privatization remain key to shaping competition for services and the main elements in structural reform. Second, even if services are exposed to international competition, domestic producers tend to have a strategic advantage over foreign investors such as closeness to market or dominant market position. Third, since services are produced at the same place as they are consumed; international competition may depend on the number of outlets in the specific market. Empirically, in Chapter Seven**,** I investigate the effect of privatization on sectors (TRSE) on the one hand and firm performance change (APC & RPC) on the other hand.

Lastly, Stretton and Lionel (1994:83-5) caution against too much investigation as to whether public enterprises are superior to private enterprises, because there is a possibility that at one time SOEs are better that PEs and at another PEs may be superior to SOEs. As such, acting on such results led reformers to concentrate on shifting activity from one mode to the other without improving the quality of either. In so doing, socialists concentrate on nationalizing while liberals concentrated on privatizing. The more important thing is to question the best role that each sector should play in a mixed economy in particular circumstance and given particular social purposes. Christian (1980) supported the danger of such comparison.

Empirical evidence supports the spatial nature of ownership forms. The Caves and Christian (1980) study supports the Lionel and Stretton hypothesis of dynamic efficiency over time. They compared TFP private (CP) and public (CN) Canadian railroads from 1956 and 1975 in competition. Using TFP[41] as the measure of productive efficiency represented by real output per unit of real resources expenditure, their findings indicate that in the 1950s and 1960s CN lagged behind than CP, but this gap closed in the 1970s when there was no significant difference.

### *1.6 Summary*

Although several theories explain privatization, I consider three different approaches for the three separate problems at hand. First, the theories of Commander and Killick (1988:111) on public-private linkages are important for analyzing fiscal impact of privatization. Second, the Cook and Kirkpatrick summaries of privatization effect being positive, negative or non-existent lend a firm foundation for analyzing privatization and firm performance. At times it has no effect (Omran 2002; Yallow, 1993), positive (Boardman & Vining, 1989; Boycko, Schleifer & Vishny, 1993) and at times negative (Aharoni, 1986; Caves and Christensen, 1980). They also hint on the superiority of services to industry, suggesting the role the sector plays in influencing privatization outcomes explained by Lens Hoj *et al* (1995) as due to lack of exposure to international competition, strategic advantage, and specific market outlets of services. Third and last, theories of Galal *et al* (1995) are central in analyzing the effectiveness of privatization on performance change since they consider corporate governance, regulation and motivation. In Chapter Two, I show the scientific processes I went through to arrive at results presented in the Chapters Three to Seven and summarize the findings in Chapter Eight.

# Chapter 2

# 2. Methodology

This chapter has eight parts including research design, population and sample choice, data sources and types, methodology limitations, determining the privatization date of state and private ownership period, a statement of how the variables were measured, testing techniques and analysis, and the scope.

### *2.1. Research Questions and Design*

#### *2.1.1. Research Questions: Where I could and could not answer*

In Chapter One, I theoretically argued that privatization is influenced by transaction costs, the way the public sector is managed and motivated, and the way the private sector is structured and regulated. In this chapter, I phrase the various questions and also prepare to answer them empirically. Data was specifically collected to answer the following research questions:

- What is the nature of property rights in the private sector? This question is answered in the 'Introduction and Theoretical Framework' in **Chapter One**.
- What are the linkages between public and private enterprises in Uganda? What were the constraints of SOEs on the budget? What happened when PSOEs become unviable? These questions are answered in **Chapter Three** on 'Fiscal Impact of Privatization'.
- What are the legal aspects of management in the public enterprises on the one hand and the private sector on the other? What are the transaction costs of the negotiations between the managers and the bureaucracy? Could have an internal restructuring been carried out? These questions are answered in **Chapter Four** on 'Corporate Governance in the Public and Private Sectors in Uganda'.
- How is the private sector regulated? What is the impact of regulation on firm performance change? These questions are answered in the **Chapter Five**.
- What are motivation (salary, fringe benefited, and job security in the private and public sectors in Uganda? Could some wages or interest have been eased in some ways? These questions are answered in the **Chapter Six** on 'Motivation'.

- What happened to the performance measured by efficiency (TFP) and profitability (ROS and ROCE) after privatization? This question is answered under 'Privatization, Ownership and Performance' in **Chapter Seven**.

### *2.1.2. Research Design*

The study is non-experimental in approach. First, non-experimental refers to research that lacks manipulation of the independent variable by the researcher. Hence; the researcher studies what naturally occurs or has already occurred; and how variables are related. I chose non experimental because human beings are not subject to experimental manipulations or randomization (Kate Ann Levin, 2006:24-5).

## *2.2 Data Collection Techniques and Instruments*

### *2.2.1 Population and sample size*

In 1992, out of a total of 146 enterprises, 39 were either struck off the company register or liquidated, leaving 117 that were then listed for privatization. By January 2004, 78 SOEs were sold.

**Table 2. 1 Population of SOEs in Uganda**

| Serial | Privatization Activity | Number of SOEs | % Of Total |
|---|---|---|---|
| 1 | Sold by January 2004 | 78 | 50.6 |
| 2 | Struck off Company register/Liquidated | 39 | 25.3 |
| 3 | Cancelled Transactions** | 3 | 1.9 |
| 4 | Awaiting Divestiture | 31 | 20 |
| 5 | Residual* | 3 | 1.9 |
| | Total | 154 | 99.7 |

*Note*: *=Printpak, Uganda Spinning Mills Lira, Uganda Hotels Ltd; **=Nile hotel, PrintPak U Ltd, Uganda Commercial Bank (UCB).

*Source*: Privatization Unit Records as at 21 March 2004.

*The Sample*

From a population of 117, a sample was 31 PSOEs was selected from firms that had audited books of accounts to enable comparison before and after privatization. The 31 firms were divided into 22 industrial and 9 trading and services chosen on the basis of the available data. The sample size was justified basing on similar studies at the same academic level and in countries similar to Uganda. Grosh (1988) in Kenya and Chirwa (2002) in Malawi did similar studies covering 77 firms over two years and six firms over five years respectively. By the same measure, the current study had 31 firms over 17 years which looked good enough. Company records were considered more reliable than interviews that would harbour value judgments.

### *2.2.2 Data Sources and Types*

#### *2.2.2.1. Primary data*

Primary data concerning firm performance and other variables such as staff motivation, corporate governance, and regulation was collected from PSOEs using questionnaires 1 a by three research assistants from September 2001 to December 2002. Most of the questionnaires, however, were returned empty since respondents did not want to reveal financial matters. Out of 40 questionnaires supplied, only 28 (70 %) were returned and those returned lacked a lot of significant details. I, therefore, resorted to the use of company data got from documents based on questionnaire 1b, also displayed in appendix.

Primary data was extracted from companies' annual reports and audited accounts. The annual financial reports of enterprises collected from various sources including the Auditor General's Office, Privatization Monitoring Unit in the Ministry of Finance, Planning and Economic Development, line ministries, Makerere University Main Library, Uganda Revenue Authority, Registrar General's Office in the Ministry of Justice and Constitutional Affairs and the enterprises themselves. Financial records were thought the best approach because of the sensitivity of replying to questions on financial matters in a questionnaire. Access to information in Uganda was difficult even in government departments.

Although the law in Uganda requires limited liability companies to provide returns to the Registrar General in the Ministry of Justice and Constitutional Affairs periodically, few firms did so. The required returns include, among others, the turnover of the company and the audited accounts. Locally, audited books of accounts have three advantages in accessing bank loans, taxation allowable allowances, and government contracts.

When applying for a loan, banks ask for records for the last three to four years to gauge income stability. Since the records are either inconsistent or unavailable, people gamble with figures and in the end fail to qualify for loans. Second, good records help business identify sources of income, tax savings, and provide information on financial position and economic trends in other parts of the world. In Uganda, many local business people think that records are only for tax purposes. Proper record keeping informs an entrepreneur of his business losses and also protects businesses with regard to allowable expenses. For instance, if you supply services to government, there is withholding tax chargeable. But due to lack of records, this cannot be offset from the final tax and the business ends up paying more. Third, in order to qualify for a government contract, audited accounts are required. Yet failure to keep books of accounts was not the only problem; releasing them was another.

There was difficulty of accessing government records even between government departments, as can be seen from an incident between the Inspector General of Government (IGG) and Solicitor General (SG) in 2004. The details involved a request by the IGG for a file from the Solicitor General's office but the latter refused to comply. The action on the part of the Solicitor General indicated reluctance on his part to expose corrupt public officials to scrutiny and censure. It also exposed a problem where one government department could withhold vital information from another government department.[42]

*2.2.2.2. Validity and Reliability*

Internal validity is an estimate of how much the study measurement is based on clean experimental techniques to enable clear-cut inferences about cause-consequence relations. One could choose experimental designs without random assignment of subjects or (if that is not possible) one would counterbalance for interfering variables then get an experiment with high internal validity. External validity, on the other hand, concerns the extent one may safely generalize the conclusion derived from a statistical evaluation to the population outside the confines of the experimental situation.[43] The validity was measured by a content validity index (CVI) that included the number of valid questions divided by the total number of questions in the instrument. Questionnaire 1 had 195 valid out of a total of 203 questions, giving a CVI of 0.95 that exceeded the cut-off point of 0.70 as required. Hence the Questionnaire 1 was valid.

Reliability is the consistency of a set of measurements or measuring instrument. This can either be whether the measurements of the same instrument give (test-retest) or are likely to give the same measurement, or in the case of more subjective instruments, whether two independent assessors give similar scores (inter-rater reliability). Reliability does not imply validity. That is, a reliable measure is measuring something consistently, but not necessarily what it is supposed to be measuring. For example, while there are many reliable tests of specific abilities, not all of them would be valid for predicting, say, job performance. It is the extent to which the measurements of a test remain consistent over repeated tests of the same subject under identical conditions. An experiment is reliable if it yields consistent results of the same measure and unreliable if repeated measurements give different results.[44] Practically, valid instruments are also reliable ones. Hence, using the fact that the instrument was valid, I also concluded that it was reliable.

*2.2.2.3 Secondary data: Legal and Trade Union Documents*

Secondary data was collected from the Ministry of Finance PU, PMU, the PERDS, Uganda Revenue Authority (URA), Uganda Investment Authority (UIA), Uganda Manufacturers' Association (UMA), National Social Security Fund (NSSF), National Union of Commercial, Clerical, Profession and Technical Employees (NUCCPTE), National Organization of Trade Unions (NOTU, Bank of Uganda (BoU), Company Registrar's office in the Ministry of Justice, and the Uganda Bureau of Statistics (UBOS). Other sources of data included libraries at Centre for Basic Research (CBR), Makerere University Kampala (MUK), Ministry of Finance (MOF), World Bank and IMF offices in Uganda and CDR and Roskilde University in Denmark, CSSSC in Calcutta India, and the Nordic Africa Institute (NAI) in Sweden.

Legal document were collected from Barya and Company Advocates, while data on trade unions was collected from NOTU as well as the individual trade unions themselves such as Plantation (NUPAWU), NUCCPTE, Beverages and Tobacco (UBTAWU), Building and Construction (UBCCAWU), Electricity (UEAWU), Hotels and Foods (UHFAWU), Textiles, Garments and Leather (UTGLAWU) and Communications Union (UCEU).

### *2.2.3 Limitations*

Major problems encountered with the data included proxies, different accounting methods, and interpretation of profitability and efficiency results immediately elaborated.

*i) Proxies*

A major problem encountered was that a number of variables could not resolutely be quantified. For instance, many enterprises providing services could not quantify their outputs. Hence, the study used sales data as proxy for output. This measure can be problematic if inventories are changing, in which case, sales would be a poor measure of output. For other variables such as regulation, motivation, management and structure I resorted to ordinal numbering for lack of an adequate measure.

*ii) Different accounting methods*

Most of the information was obtained from company-audited records. However, different enterprises have different auditing techniques especially in treatment of assets. The study took the information as given.

*iii) Limitations of Measurements of Efficiency and Profitability*

Productivity ratios (TFP) do reflect not only technical efficiency but also effects of firm size. Secondly, comparisons assume the same product mix and thus general lack of technical progress and the demand conditions for different products. Thirdly, there is a problem of assessing different inputs and outputs when firms use several inputs and produces heterogeneous products (UNCTAD, 1995:263).

Efficiency means producing at the least cost, but this is problematic in that there are no products or goods, which are exactly the same. Alternatively, least cost may mean poor quality or that producers do not face the same input costs. Cheap products may be a result of underpayment of workers; marketing may improve production efficiency if it increases economies of scale and volume. It may also be that producers underpay their suppliers of inputs and overprice their products in situations of imperfect competition. Lastly, when production has multiple purposes, judgment of overall efficiency depends on value judgments (Stretton and Lionel, 1994:83-5).

Cost efficiency calculates cost per unit of output directly and then compares cost per unit under public and private ownership. The main limitation of cost efficiency measures is that differences in costs also reflect differences in input prices, efficiency, and changes in sale activity if ratios to scale are not constant (UNCTAD, 1995:264).

Profitability might differ from efficiency for a number of reasons. Firstly, an inefficient firm might be profitable due to its structure or benefits from preferential arrangements like subsidized inputs or tax exemptions. Secondly, efficient firms may exhibit lower profitability due to controls on price or their output. Thirdly, differences in profitability might arise due to different accounting procedures in relation to treatment of items like depreciation, inflation and subsidies. In the study, all PSOEs were beneficiaries of tax incentives except companies like UETCL, UEDCL and UEGCL that were split from UEB.

Lastly, there was a possibility of the impact not being detected due to time lags. The effect of privatization may not be felt for a long period of time. Secondly, the before and after method assumed that all changes were attributed to privatization without taking into account other factors like economic liberalization and deregulation which establishes a more competitive market environment (UNCTAD, 1995:265).

*iv) Position of Researcher on Difficulty of Getting Data*

On several occasions, I was asked whether I would go back to my home country after the research. Unsuspectingly, I answered in the affirmative. The refusal to tell a lie in most cases resulted into denial of information in such places as the Bank of Uganda and the Privatization Unit. It occurred to me that the officials in government positions would have wished to give the information but feared the political implications should the research come out in the open. This gave me an impression that the privatization process in Uganda was highly political and not transparent. One fact, however, was that, an apolitical foreigner could have found it easier to collect data on privatization than a Ugandan.

The effect of nationality on research results was that facts based on opinions such as in the Ddumba Ssentamu and Mugume (2001) were likely to be less accurate than company records that I used. Hence, this study used mostly company files and its data is, therefore, relatively more stable.

*v) Non-Parametric analysis Limitations*

Non-parametric analysis has problems that results must be taken with caution because even significance values between 0.05 and 0.01 ($0.01>p>0.05$) are not to be taken as very strong indications of anything. Hence, non-parametric analysis requires very high significant p-value equal or less that 0.01 ($p \leq 0.01$). Normally acceptance levels under non-parametric are higher than under parametric tests.

## **2.***3 Setting Privatization Date and Measuring Variables*

Privatization officially set off in 1992. But before this date and passing of the law, six enterprises where sold. Hence to talk of the period before privatization generally means 1986 to 1992 while the period after privatization is taken to mean 1993 to 2003. Strictly, however, since enterprises were not privatized on the same date, privatization varied with the type of firm in question.

The principle of majority months was used to determine when a firm was sold. For instance, where an enterprise was sold in a month of a year, it was taken to be either state or private depending on where the larger part in the course of the year or the month it was sold fell. An enterprise privatized in September 1992 was taken to have been privatized in 1993, while one sold in March 1992 was taken have been privatized in 1992. Those sold in either June or July also were determined by where the larger number of days fell.

### *2.3.1. TFP, ROS, ROCE Variables and APC and RPC Derivatives*

Performance was measured using three variables, two of which were profitability and an efficiency measure. The profitability measures included return to sales (ROS) and return on capital employed (ROCE). While efficiency was approximated by total factor productivity (TFP), ROS was calculated as the annual profit before interest and tax (PBIT) divided by sales. The return on capital employed (ROCE) was estimated by the profit before interest and tax (PBIT) divided by capital.

Total factor productivity (TFP) is the ratio of net output to the sum of associated capital and labour factor (inputs). Net output is the output minus intermediate goods and services purchased (Ramamurthy, 2004). The factor productivity (TFP) was approximated by annual sales divided by annual total costs. The TFP is positive and is one when efficient (TFP =1), inefficient when less than one (TFP <1), and more than efficient when more than one (TFP >1).

In order to enable comparison of performance both before and after privatization, the data was adjusted from TFP, ROS and ROCE to their derivatives of Absolute Performance Change (APC) and Relative Performance Change (RPC). The calculation of the Absolute Performance Change (APC) of each firm was taken to be $APC = p_t - p_{t-1}$ where APC is the absolute Performance Change, $P_t$ and $P_{t-1}$ are the mean or median performances in the post and pre-privatization periods respectively. Since Absolute changes can be problematic when the measure of performance itself is absolute, I also calculated the Relative Performance Change (RPC) as $RPC = p_t - p_{t-1} / p_{t-1}$ with $P_t$ and $P_{t-1}$ defined as in APC.

### *2.3.2. Measuring Variables*

In this section, I show how I measured and computed all variables in the study including firm performance, ownership (S_M_P), local-foreign ownership, regulation, structure and sector.

#### *i) Privatization and Ownership*

Privatization policy is approximated by either a change in performance before and after, or by comparing performance of ownership forms of state-mixed-private (S_M_P). The results in this variable are expected take any form from positive, negative or zero (APC, RPC >, < =0). If it is zero (APC, RPC =0) it implies that privatization had no impact on enterprise performance. If, on the other hand, the coefficient is positive (APC, RPC>0), it implies that privatization had a positive impact on enterprise performance. But if negative, privatization had a negative effect (APC, RPC<0).

**Table 2. 2 Categorization of firms by State-Mixed-Private (S_M_P) Ownership**

| | Enterprise Name | Ordinal number |
|---|---|---|
| State | UP &TC/UPL, UP &TC/Posta, KiSW, | 1 |
| Mixed | KSW, SCOUL, UGIL | 2 |
| Private | Shell, NBL, LVBC, TUMPECO, Hima Cement, ULATI, UMI, NYTIL, Total, UPL, Kibimba Rice, ENHAS, Barclays, BATU, Grindlays/Stanbic, Baroda, UCWL, UP&TC/UTL, UEB/UEDCL | 3 |

Source: Author's Categorization, 2004.

*Local-Foreign ownership*

Foreign or local ownership also took on *'ordinal values*'. The local firms assumed numerical value 1 while the foreign was denoted by "2".

**Table 2. 3 Sample Categorization of firms by Foreign–Local Ownership**

| | Enterprise Name | Ordinal number |
|---|---|---|
| Local (L) | Century Bottling Company, TUMPECO, UGMC, UCWL, UAC/ENHAS | 1 |
| Foreign (F) | Bank of Baroda U Limited, Barclays Bank U Limited, BATU, KSW, UGIL, Kibimba Rice Scheme, Nile Breweries Limited, NYTIL, Grindlays/Stanbic Bank U Limited, Total U Limited, Shell U Limited, Tororo Cement Factory, Hima Cement | 2 |

*Source:* Author's Categorization, 2004.

*ii) Regulation*

Regulation was measured `nominally' and firms were grouped according to the four

**Table 2. 4 Categorization of Firms in the Sample by Regulatory Tools**

| Regulatory Tool | Enterprise Name | Number |
|---|---|---|
| Tariff Barrier & Non Tariff Barriers (NTB) | Uganda Breweries Limited, Nile Breweries Limited, Crown Bottlers Limited, Century Bottlers Limited, BATU, Tororo Cement Factory, Hima Cement, ULATI, UGIL, Kibimba Rice Scheme, KSW, KiSW, SCOUL, UGIL, NYTIL, ULATI | 1 |
| Minimum Capital Requirements (MCR) | Bank of Baroda U Limited, Standard Bank U Limited, Barclays Bank U Limited, Grindlays/Stanbic Bank U Limited | 2 |
| Price Control | UEB /UEDCL | 3 |
| Licensing Only | UCWL, UP & TC (UPL, Posta Uganda), UAC/ENHAS, TUMPECO, UMI/UMPL, UAC/ ENHAS, Total U Limited, Shell U Limited | 4 |

*Source:* Author's Categorization, 2004.

categories. Regulation tools assumed values 1, 2, 3, and 4 whereby import tariffs and bans was denoted by '1', Minimum Financial requirements (MFRs) by '2', Price controls by '3' and Licensing only by '4'.

*iv) Motivation*

Motivation was measured using hygiene factors including changes in salary, fringe benefits, and job security both before and after privatization.

*v) Management*

Management was measured in two ways: first as the management roles of administering, control and direction. In this category, I investigated how public and private firms went about making objectives, board appointments and functions. Second, corporate governance was estimated as the result of separating ownership from management whereby issues such as transaction costs reign.

*vi) Sector -Trade and Services (TRSE) and Industry*

Sector was also measured ordinal whereby trade and services took on '1' while industry was '2'.

**Table 2. 5 Sample Categorization of firms by trade and services and industry**

| Sector | Enterprise Name | Number |
|---|---|---|
| Trade and services | Grindlays/Stanbic Bank U Limited, Total U Limited, Shell U Limited, Bank of Baroda U Limited, Barclays Bank U Limited, BATU, UAC/ENHAS, Standard Bank U Limited, | 1 |
| Industry | UGIL, Century Bottling Company, Nile Breweries Limited, TUMPECO, Tororo Cement Factory, Hima Cement, UGMC, BATU, ULATI, Uganda Breweries Limited, Nile Breweries Limited, Crown Bottlers Limited, Century Bottling Company, Tororo Cement Factory, Hima Cement, UMI/UMPL, UCWL, NYTIL, Kibimba Rice Scheme, KSW, KiSW, SCOUL, | 2 |

*Source:* Author's Categorization, 2004.

## *2.4. Data Analysis*

The analysis of data involved differences tests using SAS packages respectively. One can note that mere ownership did not mean privatization. Hence a measure of privatization, before and after had to be employed and hence the difference measure. The study investigated the differences in means and medians of APC, RPC (or TFP, ROCE and ROS) before and after privatization. Further relationships between ownership (S_M_P) and performance change (APC and RPC) were investigated.

### *2.4.1. Normality and Difference Tests*

First, I tested the study sample for normality. Normality tests are necessary in determining the type of analysis to apply on the data. If the variables are normally distributed, then parametric tests are possible. If, on the other hand, the variable is non-normal, then non-parametric testing is necessary. In comparative studies, both variables of 'before' and 'after' must be normally distributed in order to use parametric tests. But if one is not, then the remedy is the non-parametric analysis. The test revealed that most of the data was generally non-normal.

I used the Shapiro-Wilks (S-W) and Lilliefors significance corrected Kolmogorov-Smirnov (K-S) tests to ascertain the statistical normality assumption. The null hypothesis was a normal distribution while the alternative hypothesis was non-normality. A significant test meant that the tested variable was not normally distributed while an insignificant result meant that the tested variable was. Both the variable before and after had to be normally distributed in order to carry out parametric tests. While the TFP and ROCE results were clearly non-normal, ROS displayed elements of normality.

Like for the means, I performed the K-S and S-W tests for medians of the performance measures before and after privatization. Once again, the null hypothesis was normality while the alternative hypothesis was non-normality. A significant normality test meant that the tested variable was not normally distributed while an insignificant result meant that the tested variable was normal. The K-S and S-W tests results showed mixed results for the TFP and ROCE on one hand and the ROS measures on the other hand, just like the means also shown in Appendix 3 and 4.

The effect of ROS before being normally distributed while ROS after was non-normal needed taking any of the two options available, either: 1) cleaning the non-normal ROS in order to perform a parametric test; or (2) perform non-parametric tests with available data since it was difficult to clean the data any further. The latter option, however, had to realise the weaknesses of using non-parametric tests on a normally distributed ROS before privatization. I opted for the non-parametric tests for the statistical assessment of difference between the two samples.

### *2.4.2. Difference Tests*

Existence of relationships was investigated by both the Kendall Tau correlations and non-parametric Mann-Whitney tests. Relationship tests were carried out between privatization, ownership and performance change (APC and RPC) on one hand and variables of regulation and structure on the other. The aim was to investigate whether the dependent variables were related to performance change and to what extent. The measures for performance change were the APC and RPC on the one hand while the dependent variables of regulation and structure were measured in the ordinal sense on the other hand. The 'before' and 'after' introduced were responsible for the difference testing for differences in performance before and after privatization.

The major usefulness of non-parametric, parametric-free or distribution-free methods is that testing does not require that the sample follows a normal distribution pattern. The only requirement for most of these methods is that the continuity density functions; although others also require the low order moments (Hoel, 1971:309). Non-parametric analysis was therefore handy in at least three instances:

- When the objective of the study does not require a parameter in the population.
- When it is difficult to quantify the variable exactly or where the level of measurement used or required of one of the variables is nominal, ordinal, and interval or ratio (i.e. enumerate data).
- When the distribution of the data just satisfies only continuity and symmetric population (Dickson, 1976:22).

I chose non-parametric methods practically for two reasons. First, many of the variables used in the sample could not be quantified and therefore assumed ordinal numbering. The variables included privatization policy that took on a 'before' and 'after' stance on the one hand; and ownership (S_M_P) on the other hand. The other variables that took on categorical values included regulation, structure, sector (TRSE) and foreign-local. Second, all of the measures of profitability and efficiency before and after privatization, with the exception of ''mean and median ROS before" were not normally distributed and there was no scope for cleaning data to make it more normal. Hence, choice of method of analysis came much later at the analytical stage.

**Table 2. 6 Levels and Interpretation of Significance**

| Significance | : P-values | Meaning |
|---|---|---|
| Weak | $0.01 < p <= 0.05$ | Rare |
| Moderate | $0.001 < p <= 0.01$ | Unusual |
| Strong | $p <= 0.001$ | Improbable |

*Source*: Kreiner Svend, 1999.

The study adopts the levels of measurement of statistical significance by Kreiner Svend (1999) who argues that the interpretation of the p-value should not rely only on whether or not it is higher or lower than 5 %. The 5 % is only a convention and may as such be more or less useful depending on the study at hand. Instead of a very rigid interpretation based on the 5 % convention, Kreiner suggests a more pragmatic approach that allows for a better distinction between different significant p-values as in Table 2.6.

## *2.5. Scope*

The study covered state-owned, mixed ownership, and fully divested enterprises for the period from 1986 to 2003. The SOEs definition excludes regulatory bodies formed to solely regulate economic activity. Instead, it also concentrates on enterprises formed with an objective of profit and excludes social institutions such as schools, health units or housing schemes. In subsequent Chapters Three to Seven, I present the results and also re-cap in Chapter Eight.

# Chapter 3

## 3. Fiscal Impact of Privatization

It should be recalled that a major objective of privatization in Uganda was to reduce the budget deficits through divestiture and also generate some revenue for the Treasury. The government targeted cutting the annual US$280 million SOE subsidies, and also anticipated raising US$500 million sales proceeds. As such, this chapter investigates the fiscal impact of privatization by looking at subsidies as expenditure and taxes from PSOE as well as sale proceeds from divestiture as revenue. The chapter has three sections. Part one deals with subsidies and budget deficits. Part two covers tax revenue and privatization moneys from sales proceeds, while Part three is the conclusion.

### *3.1 SOEs Subsidies before and after Privatization*

Tracing the impact of privatization on subsidies and budget deficits suggests that in nominal terms subsidies have remained constant from 1991/92 to 2004/2005 and have been almost de-linked from the central government deficit, especially since 1998/99 when the central government deficit started rising; but its origin would have to be identified in other areas of the government expenditures other than the allocation of subsidies to the SOEs.

#### *3.1.1. Subsidies before privatization*

Tracing the link between subsidies to the budget deficits show a fall from 37 to 9 per cent in 1992/3 and 2004/5 respectively explained by increasing budget deficit. The budget deficit itself multiplied four times from Shs. 427.3 to Shs. 1692.9 billion in 1992/3 and 2006/7 respectively while the subsidies remained more or less the same. The rise in budget deficit after 1998/99, unlike between 1991/2 and 1997/8, seem not to have been linked to subsidies but other factors [See Figure 3.1].

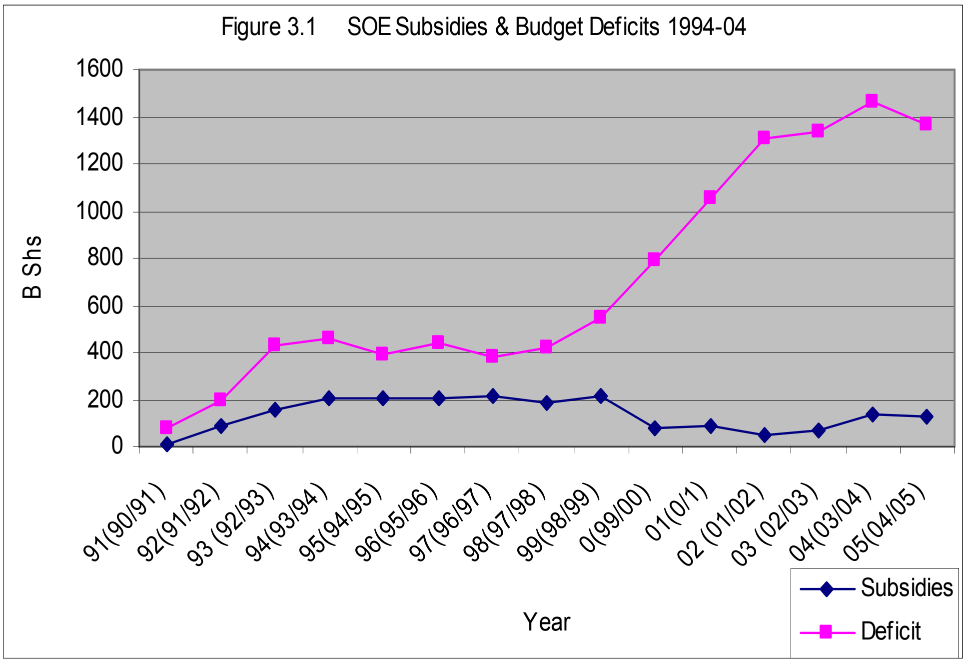
The impact of the subsidies on budget deficit is displayed in Table 3.1 and Figure 3.1. The subsidies appear in row 2, budget deficits in row 3 while the impact of subsidies on budget deficits is in row 4.

Table 3.1 Impact of SOE Subsidies on Budget Deficit in Billion Shs. 1994-2004

| Year | 91 | 92 | 93 | 94 | 95 | 96 | 97 | 98 | 99 | 00 | 01 | 02 | 03 | 04 | 05 | 06 | 07 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Subsidy | 5 | 91 | 15 | 209 | 209 | 207 | 210 | 186 | 214 | 79 | 84 | 49 | 72 | 134 | 127 | | |
| Deficit | 78 | 196 | 427 | 457 | 385 | 438 | 381 | 421 | 550 | 791 | 1051 | 1311 | 1336 | 1467 | 1363 | 1319 | 1693 |
| % | 6.6 | 46 | 37 | 46 | 54 | 47 | 55 | 44 | 39 | 10 | 8 | 4 | 5 | 9 | 9 | | |

Notes: 91 (90/91), 92(91/92) etc

*Source:* MOFPED (2002) Report Tables 5 and 7; MOFPED (2006) Draft Report




The rising budget deficit was partly due to low tax collections. Tax revenue, as a percentage of GDP was one of lowest in Sub-Saharan Africa (SSA), standing at 11.3 % in 2001. Targets for a better tax revenue output focused on improving tax administration as a strategy. On the prodding of the IMF and the World Bank, URA set a new target of achieving a tax-GDP ratio of 17 % by 2006/2007 from 12.3 % in 2002, in order to reduce the dependency on external resources for government budgetary expenditure. However, this was a very difficult venture since introduction of new taxes could be misunderstood by investors as a tax policy reversal. The government believed that there were no easy tax policy options to enhance tax revenue through introducing new taxes or increasing existing tax rates since that could signal a policy reversal discouraging investment (MOFPED, 2001: 14-5, 22). World Bank advice and inability to raise internal funds left SOEs with state subsidies as the only option.

*3.1.1.1. The Origins and Need for Subsidies*

The need for government transfers arose partly from World Bank advice as well as limited capital base of Ugandan firms.

*3.1.1.1.1. The World Bank advice*

During the colonial period industrialization in particular and development drive in general used local finances but this changed to borrowing after independence and on the advice of the World Bank. Marcussen (1973) argues that the Second World War greatly hurt the financial clout of the British economy such that in order to maintain a source of raw materials and a market for finished goods, Britain had to produce in the colonies using local capital.[45] From 1940 onwards, the British allowed the Uganda colonial government to retain a large part of the earnings of the peasants in the form of "Price Stabilization Fund" (PSF). Between 1948 and 1953, the colonialists established SOEs using local capital from the accumulation of savings from the sales of cotton and coffee during the Korea war. In total, between 1945 and 1960, the state re-capitalized an amount equal to £119.0 million of which £44.5 million was earmarked for investment. The colonial government levied an export tax of 15-20 % on cotton and coffee between 1948 and 1958, 13 % in 1959 and 17 % in 1960. Despite considerable transfers to the central government over the years for budget support, the balances accumulated to £37 million by mid-1954.[46] This nice method of financing could have continued were it not for independence.

In 1960, two years to independence, the British colonialists hatched a plan to link the Uganda economy to the British one in terms of capital, technology and market. The colonial government of Uganda requested for experts to make a 15-year development plan for the country. The nine-man strong mission recommended that since the world prices of coffee and cotton had dropped, and could not be used as a source of capital, the country needed to borrow (World Bank, 1962: vii). Contrary to British expectations, Britain lost her monopoly over Uganda and borrowed capital opened the country to greater imperialist exploitation.

Before independence, the country had been a British enclave as a source of raw materials, a market for finished goods and source of monopoly capital. Using borrowed capital, however, opened the country wider to both bilateral and multilateral imperialism than before. For instance, Italian firms established base in steel; Britain maintained its position in banking, distilleries, and chemicals; and Japan competed with the British and Russians in textiles (Mamdani, 1983:13; Abider, 1998:113). Despite borrowing, more money was needed for development.

*3.1.1.1.2. Inadequate generated Funds from operations*

Although most of the SOEs started with optimism of 'determining the charges to ensure coverage of expenditure, loses and depreciation of assets' this never occurred due to inflation, embezzlement and non-payment. A number of statutory bodies identified good sources of internal finance. For instance, UTDC had interest earnings, its successor UTB the tourism levy, UTGC the tea levy, CMB the coffee Price Assistance Fund (PAF) and NSSF a series of NSSF contributions, income on investments, fees, fines, penalties and interest on dues; while UDC had management fees, dividends and secretarial and other services rendered to her subsidiaries.[47] This internal funding was problematic due to inflation, embezzlement and default.

First, the rates were kept fixed for long periods of time without review during an inflationary period and could not cover costs as was with UTGC. Second, uncontrolled embezzlement termed 'g*host workers*' became a major problem for some firms, as was the case in the UTGC and UP & TC. UP & TC, at one time, *could not ascertain the actual labour force during the year due to maintaining names of retired, dead and other ex-staff on her payroll.* Third, government was the biggest user of SOE services but always failed to pay in time. Hence, government used SOE services that it neither promptly cleared nor paid interest on the long-outstanding debts. Interestingly, when government lent SOEs money it attached interest, but SOEs such as UAC, did not charge interest on the government debts. Although government charged UAC interest on the government loans, UAC did not charge interest on money the government owed the airline. On one occasion, UAC requested the Ministry to offset a debt of approximately Shs. 4 billion (US$2 m) that government owed UAC, but this was rejected.

*3.1.1.2. Subsidy types before Privatization*

All established SOEs had a similar financial set-up including government grants that formed the greater bulk of the subsidies and loans or guarantees, none of which was adequate. All this money was deposited in Bank account (s) approved by the supervising Minister.

#### *3.1.1.2.1. Government Transfers*

Although all SOEs required government transfers, the extent varied in three ways that also depicted SOE types. The first was whereby an enterprise's capital base also depended entirely on the Treasury as were most statutory firms including the NTB, UPA, UTGC, UTDC and the UTB [See Table 3.2]. The second type was where government apportioned an initial amount but the firm could also generate moneys of her own such as BOU, NIC, and UCB with capital of Shs. 30 billion; £250, 000; and £2 million respectively. These firms were either partially or wholly commercial. The third and last group included 'commercial' SOEs such as CMB, URC, UP & TC and NIC that, on top of the initial grants, generated money from commercial activities.

Interestingly, although government transfers played a major role starting relatively bigger firms than the private sector, it was not sufficient to meet SOEs' financial needs because government rarely fulfilled her financing obligations due to financial limitations despite the clear regulations. The effect was poor service delivery and limited service by SOEs that found themselves short of funds to run their operations constantly. For instance, UAC was under-capitalized to the extent that it neither could afford to buy jets of its own nor acquire modern equipment to run cargo handling on international standards at Entebbe Airport. In order to cope, it turned to the expensive option of plane leasing and sold shares in cargo handling (to ENHAS) to inject in more capital and improve the services.[48] Another SOE, UP&TC, simply scaled down operations before privatization. Although the firm had initially started operations without discrimination, limitations of capital forced it to slowly narrow its transmission of communications operations to cater for government priorities only.[49] UP & TC later conceded that it lacked enough funds to cover the entire country to people's satisfaction. A third example of inadequate government financing was the 1970s ''nationalization on credit'' where government nationalized private enterprises without paying for the shares. All these pointed to the poor financing of the SOE sector, suggesting that it could have paid dividends to allow some private competition in order to attract additional financing and improving service delivery. Neither the grants, nor the loans were easy options.

*3.1.1.2.2. Guarantees and Loans*

Although borrowing was generally authorized, loans were not an easier option either due to collateral and credit biases. Borrowing was deemed authorized if approved by both finance and supervising Ministers, a supervising Minister alone or by the Board. In the regulations, government promised to guarantee loans on behalf of the SOEs and even fixed limits. For instance, NH& CC and UTGC were allowed temporarily amounts not exceeding £100, 000 and £400, 000 while long-term limits were set at £5 million and £3 million respectively. For UCB, it was the Finance Minister who had the discretion of setting the limit. Lastly, URC was allowed to sell stock but this was mockery since no Stock Exchange existed between 1970s and 1990s (See Table 3.2).

First, the unsettled issue of ownership posed a problem to many SOEs to raise loan capital. A good example of such deadlock was the Uganda Hotels and the DAPCB in the 1990s. While UDC set up Uganda Hotels, control was transferred to Ministry of Tourism; but the ministry could not borrow because it could not mortgage assets that legally belonged to UDC (FEF, 1990:25). Second, Uganda's banking sector frustrated export trade and industry due to the unrealistic collateral demanded. Traditionally, bank credit discriminated against industry due to the nature of the security borrowers offered. Although banks normally demanded land, the business community possessed other types of security; partly leading to sector bias in credit allocation. Banks demanded land titles and factories as collateral (security) for export guarantees in particular and credit in general, and refused export confirmed orders or mineral reserves as mortgages. The irony was that no land in Uganda could guarantee the huge export values usually involved. Some Banks in Africa like the EXIM Bank in Cairo, Egypt, were innovative and accepted confirmed orders as guarantee. Mining faced similar discrimination as exporters,[50,51] and miners were equally frustrated. Local banks refused to accept mineral reserves as collateral security. Bias against lending to the mining sector created the problems of under-exploited mineral deposits due to lack of capital to invest in the sector and needed to explore the viability of confirmed export orders and mineral reserves for loan security in order to boost export and mineral sector growth.[52,53]

The effect was that while trade and other service sectors held the lion's share of bank credit, claiming 54.3 %, manufacturing accounted for 23.2 %, agriculture constituted

8.8 %, Transport, Water and Electricity sectors 10.5 %, the building and construction sector remained at 3.3 %, while mining and quarrying activities remained low at 0.2 % of the loans portfolio in 2003.[54] The bias against industry was general and historical.

The failure to mobilise cheap development capital was racial and historical and not general. While the Asian businessmen in the country managed to solve capital problem by pooling resources together for investment, this was not the case with black Africans in Uganda. There was lack of mutual trust among African traders leading to failure to cooperate to form partnerships and companies, unlike the Asian businesses which thrived on family partnership, and this sort of spirit needed to be inculcated among African traders (RoU, 1968:3-4). Ironically, while black Africans found it easy to contribute to social events, this was not the case for business. Hence, there was need for campaigns to educate the African communities in the country to cooperate and form companies in preparation for growth and industrialization. Mobilization of the local masses could be done using the existing institutions in which people had trust like the kingdoms, churches or clans. But probably the colonial government that created African peasants and Asian traders did the biggest harm that has not been rectified by subsequent regimes.

During the colonial and post-colonial times the European and Asian commercial banks which existed, did not extend credit to Africans although they gave credit to other racial groups. The cause for the segregation was not clear but might have been lack of collateral security. The government loans to aspiring businessmen and industrialists were also inadequate (RoU, 1968:3-4). In order to enable Africans access loans, the UCB was started in 1950 by the colonialists. As it has been argued, the reason for which it was created is even greater now than in the colonial times[55] Instead of selling UCB, government should have considered other alternatives like reducing staff, closing some loss-making branches, contract management and maybe selling some shares to Ugandan businessmen.[56] Hence, capital became one of the main contending issues to enterprise development. Just like loans, internally generated funds were equally inadequate.

Despite their inadequacy subsidies created a big impact in SOE financing and development. SOE capital on average was bigger than that of their private counterparts and SOEs filled the gap of large-scale enterprises. A private enterprise had a smaller capital base averaging as little as Shs. 30, 000= (US$15) to 50, 000= (US$25) for micro firms and Shs. 300, 000= (US$150) for medium-sized ones. In comparison, SOEs had bigger capital. For instance, UCB and NIC had capital of US$2 m and US$250, 000 respectively. The Treasury made the difference in financing and development, so much so that privatization proved doom for PSOEs. After privatization, the majority of PSOEs were unable to raise further capital as evidenced by the reduced interest in total annual expenditure such as those in Beer, Soda, Meat, Pharmaceuticals, Energy, Transport & Telecommunications with 15.7, 20.5, 0.6, 4.3, 27.2 and 8.6 percentage point reduction respectively. On the contrary, those that were comfortable included BATU and UCWL that managed to secure bank financing as evidenced by increasing borrowing by 17.9 and 14.5 percentage points respectively; the sugar companies that continued with government financing; the UEB split firms that enjoyed government guarantees; and the banking sector that had it easy due to falling deposits rate.[57] Subsidies, therefore, made possible the existence of some sectors that would not have emerged at all under pure market system that pursue a profit.

## Table 3 1 Examples of Statutory SOE Financing Types before Privatization

| Enterprise | Sources of Funds | Borrowing | Expenditure | Investment |
|---|---|---|---|---|
| NTB | 1) Government grants, 2) Loan; 3) Any other moneys received in discharge of duties Bank approved by Minister | Approved by both Finance & Supervising Minister | 1) According to budget and approved by Minister, 2) supplementary funds | Approved by both Finance & Supervising Minister |
| UTDC | -do- + interest earnings + treasury advances | Approved by Finance Minister | | Approved by Finance Minister and may invest in consolidated fund |
| USC | -do- | -do- | | -do- |
| BOU | Authorized Shs. 30 b subject to review; Issues & paid up Shs. 20 b | n/a | N/a | 1) Bank/government to Share profits in ratio of 25:75; 2) transfer to consolidated fund½ |
| NHC | -do- | Approved by Supervising Minister 1) Temporary loans Limit <£100, 000; 2) long term loans Limit <£5 m | n/a | n/a |
| UCB | 1) Authorized £2 m subject to review; 2) general reserve fund where transfers of profits are made. Transfers are ¼ profits if <RF is <paid up capital or 1/8 profits if <RF is < 2 x paid up capital; 3) Consolidated Fund receives the balance | Limit Determined by Supervising Minister | n/a | n/a |
| UTGC | -do- + tea levy | Approved by Supervising Minister 1) Temporary loans Limit <£400, 000; 2) long-term loans Limit <£3 m | n/a | Board with approval of minister invest money not readily needed required in any securities approved by the board |
| UP&TC | -do- | Approved by Finance Minister | n/a | In any project with approval by both Finance & Supervising Minister |
| UTB | -do- + tourism levy + interest earnings | Approved by Supervising Minister | n/a | n/a |
| Uganda Air Cargo Corp. | -do- | n/a | Determine a charge to ensure coverage of its expenditure, losses & depreciation of assets | n/a |
| NIC | Authorized capital =£250, 000 all by government divided into £50, 000 shares and subject to review by Supervising Minister | n/a | n/a | n/a |
| URC | -do- + interest on savings | Borrow through issue of stock and limit approved by Finance Minister | n/a | n/a |
| CMB | -do-+ Coffee price assistance fund | Approved by both Finance & Supervising Minister | The board shall perform its functions in a balanced budget way including provision for depreciation & renewal of assets | Board temporarily invest money not readily needed required in any legally accepted venture or other money approved by treasury |
| NSSF | 1) Contributions, income on investment, fees, fines, penalties and interest on dues; 2) loans etc | Approved by Board | n/a | All monies in the fund not immediately required shall be invested by board with approval with Minister |

*Source*: Various Decrees, acts and Statutes.

### *3.1.2. Subsidies After privatization*

As already stated, subsidies to unsold SOEs remained more or less the same between 1994 and 2004/5. These results, however, had problems that the official records ignored other government transfers to the PSOEs and private sector. The subsidies, therefore, while pronounced constant, could be indeed rising.

**Table 3 2 SOE Subsidies in Billion Shs. in 1993/94-2004**

| Subsidy | 93/94 | 94/95 | 95/96 | 96/97 | 97/98 | 98/99 | 99/00 | 00/01 | 01/02 | 02/03 | 03/04 | 04/05 | Δ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SOEs # | | | | | 41 | 41 | 38 | 21 | 31 | 38 | 36 | 36 | + |
| Direct | 19.4 | 56.2 | 52..3 | 100.3 | 8.8 | 8.9 | 11 | 24.4 | 9 | 27.6 | 52.5 | 22.7 | - |
| Equity | 78.7 | 55.3 | 52.1 | 3.4 | 40.4 | 41.2 | | 1.7 | | - | | 25.8 | + |
| Financial | 57.0 | 65.9 | 72.8 | 71.6 | 74.7 | 82.5 | 56 | 56.6 | 32.7 | 42.4 | 80.1 | 75.4 | - |
| Fiscal | 18.0 | 20.5 | 89.7 | 7.7 | 45.0 | 57.5 | 12 | 0.8 | 0.6 | 1.4 | 1.7 | 2.9 | - |
| Others | 35.3 | 10.5 | 20.3 | 26.9 | 17.0 | 23.6 | | | 6.8 | | | | |
| Total | 208.5 | 208.6 | 206.6 | 210.1 | 186.1 | 213.9 | 79 | 83.6 | 49.3 | 71.5 | 134.4 | 126.9 | - |

Notes: # =number, + is rising subsidies, - is falling subsidies; Δ =change

*Source*: *Background to the Budget, 1999/2000: MOFPED, (2006) Draft Report.*

While general subsidies remained more or less the same, individual subsidies impact was mixed: some rising such as for direct and financial while others were falling such as for equity and fiscal terms. Subsidies that reduced were equity and fiscal, while those that increased were financing and direct terms. The financial terms included loan arrears, interest payments and low interest loans. The fiscal terms included tax exemptions on imports, and zero interest rates on arrears of tax payments and counter subsidies were government used services of SOEs on credit. Lastly, equity included grants or equity funding from either donors or government (Ddumba Ssentamu and Mugume, 2001: 46-7). This failure for the overall general subsidy to fail to change was explained by bailout operations performed by President Museveni, government guarantees to UEB split companies, undervalued assets during privatisation, and state contracts discussed next.

#### *5.1.1.1.Bailout operations: Client-patron relationships*

Despite privatization and government attempts to pull out of business, the state covered the losses, particularly those belonging to three Asian businessmen. President Museveni operated bailout operations to PSOEs explained as "strategic intervention in vital sectors generating employment and fighting poverty through helping businesses that generated wealth''.[58] The most notable and frequent beneficiaries were three Asians, namely, Mehta, Madhvani and Sekhar Mehta. For instance, in August 1998, government paid US$4 million of the first Mehta debts owed to two foreign banks. So far government had sunk a total of US$95 million since Museveni assumed power, divided between Mehta Group (US$68 m) and Madhvani Group (US$27 m).[59] The Madhvani Group is a multi-million-dollar empire that extends to the entire EAC region, India and Canada. In Uganda, it was active in the sugar, oil, beer and steel, electricity production and tourism, accounting for 10% of Uganda's GDP and employing over 15,000 people.[60] In addition to picking the Asians' debts, government gave them other sweeteners through inflated payments.

The Asians also received inflated payments for shares of several PSOE companies such as KSW and Cable Corporation. In 1972, government nationalized firms without paying for the 51% shares taken over. Government explained that during the 1970 nationalizations it took over several private firms including the Mehta Group on credit terms and was paying for the shares at the time of privatization and re-possession.[61] While reason for payment was not contested, the inflated amount eventually remitted was. Government made a payment of Shs. 47 billion (US$23.5 m) in KSW for shares valued at Shs. 4.2 billion (US$2.1 m) by Price Waterhouse. In 1971, government acquired 49 % shares in Madhvani Sugar Works Limited (MSWL) on nominal terms. In 1972, in order to capitalize its shares, government agreed to invest in Madhvani Sugar Works (MSW) only US$2.4 m through promissory notes paid over two years. This arrangement collapsed in 1972, however, after the military coup and expulsion of Asians. But negotiations resumed in 1986. The monthly payments from January 1992 to December 1999, inflated the original US $2.4 m to £30 m (about US$ 36 m).[62, 63] Financial bailout was not for all but Asians and not local investors.

In contrast and with the exception of only a local exporter of hides and skins, government refused to bail out other PSOEs sold to local investors such as UAC, UMI Kampala, NYTIL and PAPCO that cried out for help. For instance, UAC needed Shs. 2 billion (US$500, 000) to fund her operations. On three occasions, it was bailed out to a tune of US$3 million (Shs. 3 billion). The fourth time, however, there was no alternative but to sell shares to ENHAS in order to raise the money.[64] Several other PSOEs such as NYTIL, PAPCO and a private local Bank (ICB) solicited for support in vain. In only one case, the local exporter of hides and skins, government guaranteed the loan. Unlike these local investors who failed, UMI Kampala succeeded.

In what appeared to be political campaigning, President Museveni in 2004 guaranteed a local exporter of hides and skins that had gone bankrupt to the tune of over a US$22m to pay his debts. Museveni had exhausted his two-term constitutional service and wanted the constitution amended to open the limit. At a public rally in Western Uganda, the President disclosed that he had asked the Bank of Uganda Governor to rescue UMI Kampala (a PSOE). Before his bankruptcy, the local exporter, Basajabalaba, was among the leading exporters of hides and skins and his enormous assets included hotels and a private university.[65] [66] The hides and skins business generated $20.25m (about sh34b) annually. The tycoon received Sh20b (US$10m) to resuscitate his business empire under Government guarantee.[67] Government favoured Asians to local entrepreneurs for political reasons.

Both the media and opposition politicians explained the Asian preference to local investor as a political strategy by the National Resistance Movement (NRM) government to entrench herself in power. First, the media argued that government preferred foreign to local investors because in a crisis, the former were likely to support the government in power in order to protect their investments unlike the latter that could ally with the opposition to change government. Second, opposition politicians stated that the government policy, besides being strategic, was also selfish because President Museveni wanted to impoverish Ugandans so that they could respect him and also be easily governed.

#### *5.1.1.2. Government Guarantees to the PSOEs in Energy Sector*

Despite privatization, government guaranteed loans totalling close to US$1 billion representing 3.3 times of the 1992 Uganda budget deficit in the name of development since privatization kicked off in 1992 (Table 3.4).

The biggest beneficiary of guarantees was Uganda Electricity Board (UEB) (a PSOE in the energy sector). Before privatization UEB, produced, distributed and regulated energy in Uganda, hence combining commercial and non-commercial activities. On privatization in March 2000, UEB was broken into separate liability companies for generation, transmission, distribution and regulation. The successor companies were UEDCL, UETCL and the UEGCL, all operating under the direction of the Electricity Regulatory Authority (ERA). While the UEDCL owns and operates the grid connection electricity supply infrastructure operating at 33 KV and below, the UETCL owns and operates the transmission infrastructure above 33 KV. The UEGCL owns and operates the Kiira and Nalubaale hydropower stations at Jinja (UEB, 2000:7). Despite privatization of UEB, the split companies still enjoyed enormous state guarantees due to lack of working capital, rural electrification and the need to export power. The subsidies to the energy sector were explained by upgrading and refurbishment of sub-stations, rural electrification and extension of the national grid, and improving the BOP.

Table 3.4 Government Guarantees to PSOEs & Private Sector since Privatization

| | Lender/Borrower | Date approved | Purpose | Sector | Amount in '000 US$ |
|---|---|---|---|---|---|
| 1 | European Investment Bank (EUB)/ | March 1997 | Availing long-term financing long to small and medium sized investments by private sector companies or ventures in Uganda | Multi-sectors | 33,000 (ECU 25,000) |
| 2 | Svenska Handelsbanken AB Sweden /UEB | June 1997 | Co-financing contract 6 of Owen Falls Extension under the Third Power Project | Energy | 15,000 |
| 3 | Eksport Finance of Norway/UEB | Dec. 1998 | Refurbishment of the 132kV Sub-Station under the third power project implemented by UEB | Energy | 1,280 |
| 4 | CDC/AES | Nov. 1999 | Build power station at Bujagali | Energy | 430,000 |
| | World Bank/ | | | Energy | 375,000 |
| 5 | IFAD | 2004 | Oil palm growing (BIDCO) | Agriculture | 112, 000 |
| Total | | | | | 591,280 |

*Source*: Parliament of Uganda

First, although government had constructed the grid lines, it lacked finance to refurbish and upgrade three 132KV primary substations costing US$6.35 million. The Norwegian Government came to rescue and gave Uganda a tied grant of US$5.1 million conditional on borrowing another US$1.26 million from a Norwegian commercial source[68] [See Table 3.4, Row 4].

Second, despite privatization of UEB government still pursued social objectives in the energy sector that included "*continued intervention in socially desirable areas like rural electrification and extension of the transmission grid*". Government still footed fixed costs in the energy sector despite privatizing UETCL. Such scheme was the introduction of a rural electrification fund to facilitate a systematic increase of electricity coverage in the countryside[69, 70] itself arising out of environmental concerns.[71] Third and last, the need to improve the country's BOP position made subsidies stay on. Government had the ambition of becoming a long-term electricity exporter in the region to exploit the extensive water resources, waterfalls and a very stable hydrological regime along the River Nile then. Due to the limited initial market for power, potential lenders, especially the World Bank advised the country to start with Bujagali (250 MW) and later Kalagala (350 MW) on the basis of alleged *least costing* in conformity with a hydropower development Master Plan.[72] Consequently, the government embarked on negotiations with Kenya, Tanzania and Rwanda[73] to increase demand of Ugandan hydropower and agreed with Kenya and Tanzania to increase export sales of electricity to these countries in order to address Balance of Payments (BOP) problems (RoU, 1999: 3, 7, 9). But negotiation with Rwanda did not succeed due to bickering between the two countries. In addition, more hydro power was needed to solve the acute power shortages in the country arose out of mismanagement in the 1970s. Completion of the Owen Falls extension was not a solution to the power shortage and what was required was construction of new and large expensive hydropower stations. As a result of UEB leverage arising from the rehabilitation and extension of the Owen Falls, government opted for independent power providers (IPPs). Donors argued that IPPs would provide a fairer return on investment; attract new financial resources into the sector; assume the risks of construction, cost over-runs and operations; and efficiently operate the projects better than the state. Hence, the bigger guarantees originated from government's promotion of these IPPs. Two companies Allied Energy Suppliers (AES) Nile Power and Arabian International Construction (AIC) indicated interest in hydropower development. AES was granted rights to investigate and develop Bujagali Falls (1995), AIC to develop the Kalagala Falls, and Norpak Power Limited[74] to develop Karuma Falls in 1997 (RoU, 1999: 2-3).

The very first HEP project by IPP was the US$500m AES Nile Power at Bujagali. This was the World Bank's biggest funded single investment in Africa then[75] and proposed to construct a hydroelectric station at Jinja with an initial four units generating 200 MW of power with a possibility of upgrading it to 250 MW. The project included construction of extensive transmission lines to transmit the power from site to the city and separately to the Owen Falls Power station and to add flexibility and strength to the national grid. The estimated cost was US$515 million,[76] while completion was to be in 44 months. The donors included International Finance Corporation (IFC), Commonwealth Development Corporation (CDC), Overseas Private Investment Corporation (OPIC), and Export Credit Agencies while AES Nile Power was to contribute 25 % of the project funding (RoU, 1999: 5). The AES project stalled due to allegations of corruption[77] but was later given a go ahead in 2007 by World Bank.

The informed public argued that there was no guarantee that power produced from Bujagali dam would be injected into the national grid in the hands of profit minded investors who had failed to eliminate power losses of over 33% and charged higher tariffs on the pretence that it was because of thermal fuel when neighbouring Kenya used more thermal and paid less. At the time, Uganda's electricity was more expensive at over US$ 23 cents per unit compared to Kenya's US $19 and Tanzania's US$9 and these two countries produced over 300 MW and 70 MW of their electricity from thermal respectively compared to Uganda's 100 MW thermal. Unlike other countries, Uganda had left her power sector, the engine of economic growth, with private investors. There were many examples in and outside Africa to show that power sectors were best run by national governments and not private investors. For instance, in Africa, Algeria produced 6,468MW, Morocco 4,687 MW, Ethiopia 1,200 MW and South Africa 4, 0676 MW but their sectors were being run by the national governments. Outside Africa, Canada produced 104,371MW, China 116,287 MW, Japan 268,287 MW and South Korea 54,673 MW but these governments still run their power sectors.[78]

Three lessons emerge from the AES project. First, private sector-led development can only occur in *profit making sectors*, as the UEB example shows. In sectors that are highly capital-intensive and require long-term infrastructures such as power gridlines or railway lines and harbours, government must step in. This also questions whether full privatization would ever take place in LDCs, since profitability of some SOEs conflicted with development. For instance, the telecommunication sub-sector that was left to the private sector in Uganda, the distribution of telephones was biased against the rural areas. Secondly, as shown by the negotiations between Uganda and Rwanda, Tanzania, and Kenya, both local and external markets can limit private sector development (PSD) in LDCs. Uganda tried to help the firms in export markets, though they were privatized as shown in the Uganda negotiations with Rwanda, Kenya and Tanzania. Hence, markets were political constructions that thrived with good bilateral relations. While Uganda managed to export power to Kenya and Tanzania, she failed with Rwanda due to political differences between the two countries then. As such, instability in the Great Lakes region and other LDCs greatly influenced the growth of industries and regional trade. Third, inflating of budgets was not only a government phenomenon but also all other private institutions that interacted with government and this could result into siphoning off of scarce foreign exchange from LDCs as the AES example shows. IPP in Uganda represented a potential method of siphoning scarce foreign exchange out of the country. As such, privatization was not a complete solution to the budget-maximizing behaviour of government. One dilemma was that the state could not be completely eliminated.

In summary, despite privatization and the government's free enterprise rhetoric, it supported private firms as well as PSOEs through bailout operations and guarantees and state contracts. Such continued government support, however, is still challenged by scholars in search of possible alternative solutions that should have been used instead. Given the fact that PSOEs exhibited the same financial problems as before privatization, it prompts us to question whether other options, such as capital restructuring, could have been better than outright sale.

*Capital Restructuring*

As an alternative, restructuring should have looked at changing the capital structure of enterprises away from interest paying to cheaper means of capital; and outside government support subsidies were indeed cheap means of capital, but not private source. In this way, cheap financing could have represented an alternative to privatization. While it was true that subsidies allocation was another term for cheap financing, what was required was something that left out the state and thus de-links SOEs from the Treasury. For instance, the textiles and energy sectors should have sought cheap financing such as the sale of preferential shares or company bonds to the public. Although outright sale of a SOE to a capital-strapped 'core investor', emphasized by the policy, changed ownership, it could not solve the capital problems of several enterprises. If a buyer of the PSOE did not have money of his own, the result would be liquidation as it turned out in the textile sector with NYTIL and ATM; or continued government support, as was the case with UEB in the energy sector. Basing on the share of interest on total expenditure; cheaper financing could have solved 33.7-47 % (basing on UEB annual report and current study respectively) of UEB's problems and 54.9 % of NYTIL's. Thirty per cent of UEB financial costs could have been systematically replaced by cheaper non-interest finance like preference shares that actually did not require change of ownership.

Privatization took a stranger turn in the sugar industries where government footed financial losses and bailed them out. The sugar industry had a whooping 456.2 % interest of total expenditure before privatization. After privatization, the interest expenditure increased to 482.6% overall. The sugar industry-generated losses amounting to 588% that were footed by the government made privatisation questionable. In a normal private sector, poor managers bore the burden of the losses through bankruptcy. As it was, the two sugar factories of SCOUL and KSW were private, but government-funded and continued declaring losses after privatization. The analysis of the sugar sector, however, needs to be taken with some two cautions.

First, SCOUL and KSW companies' accounts were consolidated and also included several other subsidiaries outside the sugar sector. Second, the increase in interest expenditure from 456.2 % to 482.3 % in the sector could also be due to the increase in the number of firms in the sample that moved from two (SCOUL and KSW) to three (including $K_i$SW) before and after privatization respectively. KiSW was '*privatized*' under a management contract in 1992. Hence, interest expenditure might have been higher simply as a result of more enterprises in the sector than before privatization. To sum up, enterprises with financial costs as high as –456.2 % for sugar, 54.9 % for textiles, 19.1 % for beer, 33.7 % for energy and 28 .1 % for banks needed a review of their dear financing. With the exception of banks that usually keep high gearing ratios, most firms needed to reduce their gearing by moving away from loan capital to cheaper financing methods such as preferential shares. But as I show immediately, government did not only support PSOEs financially but also through state contracts.

### 3.1.1.3. *Undervaluation of SOEs sold to State Employees*

During the privatization process at least seven (9 %) out of 74 SOEs were undervalued and sold to government employees[79] costing government Shs. 4.3 billion (US$2.2) (over US$2,152,000 at US$=Shs.2, 000).[80] Undervaluation (AV>SP) was calculated as the excess of asset value (AV) over the sales price (SP). The undervaluations were explained by politics and weak private sector.

First, the ruling party supporters included cabinet ministers, presidential advisers, National Resistance Movement (NRM) supporters and Members of Parliament (MPs). In order to marshal political support, the ruling NRM either undervalued or condoned default. One hotel was both undervalued and the buyer also defaulted. Valued at Shs. 322 million (over US$162, 000), Lira Hotel was sold to Showa Trading enterprises after it was undervalued by Shs. 72 million (US$37,000). Despite the leverage, the buyer defaulted on the balance of Shs. 200 million (over US$100,000). With the exception of only Uganda Meat Packers (UMP) Soroti, all SOEs sold to political supporters were undervalued.

ENHAS's shareholding before privatization included UAC with 50 % majority stake, Efforte and Global Airlinks each with 20 %, Sabena 5 % and the workers of the UAC and the Civil Aviation Authority (CAA) 2.5 % each. The first two highest bidders, Dairo Air Services and South African Alliance Air, had offered US$6.5 million and US$ 4.5 million respectively were ignored.[81] Prior to the sale, the firm was valued at Shs. 5 billion (US$2.5 m) and Shs. 8 billion (US$4 m) by Ernest Young and DFCU respectively. Undervalued between US$812, 500-2, 312,500, the firm was sold to relatives of President Museveni who owned Global Airlinks and Efforte Corporation ignoring the two highest bidders.[82] But this was not the first time the President's brother, Salim Saleh, interfered in the privatization process.

Earlier on, Salim Saleh was involved in UGMC sale that he bought and re-sold the next day in a speculative deal. Incorporated in 1955 as a private limited liability company with four subsidiaries,[83] the SOE had a record of profit making approximating over Shs.500 million (US$250, 000) annually, dividend distribution and capacity utilization of 60%.[84] Before privatization, UGMC shareholding included government with 78.9%,[85] DFCU 16.7% and other minority shareholders with 4.4%.[86] Caleb International bought 51% of the government's 79.1% shares at Shs. 5.3 billion (US$26.5 m) ahead of the highest bidder (UNGA, a Kenya-based Food Company) in 1997 citing ''Ugandan ness" this time round. Interestingly, although "Ugandan ness" was the criteria used for awarding the company, the partners named by Caleb International in securing the UGMC bid were overseas firms -Tiger Oats and a South African company Number One Foods (PTY) Ltd.[87, 88] As already explained, undervaluation did not only favour the first family but also several other NRM supporters.

Other NRM supporters bought White Horse Inn and Soroti Hotel causing a financial loss of Shs. 290 million (US$145, 000) and Shs. 137 million (US$68, 500) respectively. While White Horse Inn went to Kabale Development Company owned by a Governor of the Central Bank, a transport and communication Minister and a former managing director of the Uganda Commercial Bank, the Soroti Hotel was sold to Speedbird Aviation, belonging to an MP and later to become Minister of State for Health (General Duties)[89] while other party supporters were pacified through debt-write off that received mixed results: succeeding over UMI Soroti but failing over Printpak Limited.

Established in 1956, UMI Soroti used to slaughter and retail beef for both local and export markets till it closed in 1985 due to insurgency in Teso. The Soroti Meat Packers was sold to Teso Agro-Industries Company Limited (TAICO) belonging to a presidential advisor at US$300,000 (Shs. 300 million) with 50% paid immediately and the balance a year after.[90,91,92,93] TAICO defaulted on the outstanding debt of Shs. 150 million (US$150, 000) blaming it on the war in the Teso region. Later, the balances were written off as war loses in accordance with the deeds of assignment that were signed by the two companies in end of 2000. Besides Uganda Meat Packers Soroti, two other hotel buyers of Hill Top Hotel Kitgum and Acholi Inn Hotel benefited from the arrangement [RoU, 2000: 146].

The Printpak buyers, however, were not so successful in having their debts cancelled. Sold for Shs. 900 million (US$450, 000) to New Printpak (U) Limited belonging to the then First Deputy Prime Minister; a Transport and Communications Minister;

Presidential Media Adviser, in May 1996, the government sold only plant and machinery but retained the land and buildings that reverted to government.[94] When government demanded payment, the buyers accused government of selling them encumbered assets that they could not use to access loan financing [RoU, 2000: 146]. At least two Asians benefited from undervalued SOEs; although these had genuine, commercial reasons for the low prices. The first Bank of Baroda Uganda Limited and a paper company (PAPCO Industries)[95] undervalued by Shs. 1 billion (US$500, 000) and Shs. 100 million (US$50, 000) respectively, citing market and capital problems.[96]

Second, undervaluation was expected even before sale if the locals were to buy SOEs. What was not expected, however, was the preferred sale of the SOEs to NRM cadres and family members of President Museveni. Before sale, it was realized that the locals would not be able to buy all assets offered for privatization. Total SOE assets exceeded all the amount of money in the Ugandan Banks. While total SOEs assets were valued at Shs. US$ 1 m (Shs. 200 billion), the entire money supply was just shs. 50 billion and bank deposits stood at shs. 46 billion end of January 1989.[97]

#### *3.1.1.4. State Contracts*

In Uganda, like in Asian countries, private companies in the manufacturing sector depended on the state to create a market for them. After privatization, government created contracts where they should not have existed in the first instance, and in an inefficient manner that also maximized the budget, thus hurting the taxpayer. Two examples of TUMPECO and NYTIL, help illustrate the case of state contracts and firm survival.

The TUMPECO case involved issue of new national motor vehicle number-plates immediately after the privatization of the firm. Government and TUMPECO hatched a plan to replace car number plates in the country citing depletion of the existing ones. The media argued that the reasons given by the government that existing ones were depleted or that the change was for security purposes were not convincing. First, although Uganda Revenue Authority clarified that the new number plates would run concurrently with the old ones and no deadlines were set, the racket was intended to force everyone to surrender his or her old number plate by August 1999 after paying US $76 to TUMPECO for motor vehicles and US $37 for motorcycles, which totalled to US $10 million. In the end, no vehicle kept its old number plates. Second, the media argued that given the available technology, perforation was not difficult to forge, which defeated the purpose of the new, security waterproofed number plates.[98]

The Nytil case involved President Museveni instructing the Defense Minister to contract Nytil Picfare based in Jinja to produce army uniforms in 1996. The Defense Ministry tendered the supply of army uniforms in two categories of plain and camouflage. While a pair of army uniform from China cost US$8, Nytil Picfare imported the same and sold it to government at a price nearly three times higher. Fourteen and sixteen companies tendered for the green and camouflage uniforms respectively. Nytil Picfare quoted US $19 for green while another Ugandan company, Eladam, quoted US $9.50. For the camouflage, NYTIL quoted US $20 while the lowest Karmang International quoted US $11.05 per pair.[99] NYTIL, the dearest bidder, won the tender for both types, raising suspicions of ignorance, petty nationalism or corruption.

Analysis of the granting of the tender seemed to suggest misinformation of alternative sources, petty nationalism or at worst corruption. It was either misinformation or petty nationalism to award the tender to a Ugandan firm and not to the internationally more competitive and cheaper Chinese firms whose prices were far lower compared to all the local quotations. By taking this option of awarding the tender to NYTIL, government squandered US $11 on each green and US $12 on camouflage uniforms respectively and squandered US $23 on both. Hence, even with privatization, state contracts still exercised budget maximizing behaviour because of petty nationalism, corruption or simply ignorance. Like with expenditure, privatization's impact on revenue-side was equally mixed, increasing tax revenue but failing to generate targeted SOE sales proceeds.

### *3.2. Tax Revenue and Privatization Moneys*

Investigating the impact of privatization on tax revenue and sales proceeds gave mixed results with big leap in tax revenue but failure to hit the expected targets from SOE sales.

*3.2.1. Tax Revenue*

After privatization, tax expenditure increased 4.4 times from Shs. 3.2428 billion to (US$1.6 m) to Shs. 17.6453 billion (US$8,822,650) with the increase in industry exceeding the trade and services sector in 31 SOEs studied (See Table 3.5, Row 10). The leap in tax revenue was explained by scrapping of tax incentives in 1997 [although they bounced back in the 2003 budget], as well as increased production and efficiency.

Finance state minister in charge of privatization, Peter Kasenene, explained increased taxation as due to overall efficiency that improved due to privatization, thus paving the way for management innovations and inventions. It also led to new and improved products and services and consequently increased profitability.[56]

The number of PSOEs firms joining the big taxpayers' category was on the increase from nine in 2003 to 20 three years later. In 2003, the nine leading taxpayers in the country were PSOEs and they increased their tax payments by between 40% and 100%. These included NBL, Crown Beverages, Shell Uganda, Total Uganda, Stanbic Bank and BATU.[100] Three years later, more PSOEs joined the list of the first twenty biggest taxpayers.[101]

**Table 3. 5 Industrial Costs in 31 Surveyed SOEs/PSOEs in Billion Shs. 1986-2003**

| **Costs** | **Before Privatization** | | | | **After Privatization** | | | |
|---|---|---|---|---|---|---|---|---|
| | Total Costs** | Annual mean *** | Annual mean for Industry | Annual mean for TRSE | Total Costs | Annual mean | Annual mean for Industry | Annual mean for TRSE |
| Interest | 204.9 | 11. | 7.4 | 3.9 | 174.4 | 90.7* | 86.8 | 3.9 |
| Raw Materials | 80.3 | 4.6 | 4.6 | 0 | 436.9 | 24.3* | 24.3 | 7.9 |
| Wages | 268.9 | 14.9 | 9.3 | 5.6 | 164.6 | 9.1 | 5.7 | 3.5 |
| Utilities | 29.5 | 1.6 | 0.9 | 0.7 | 4.8 | 0.3 | 0.3 | 0.04 |
| Transport | 28.4 | 1.6 | 1.4 | 0.2 | 89.1 | 0.5 | 0.3 | 0.2 |
| Overheads | 1.2 | 0.06 | 0 | 0.1 | 16.2 | 0.9* | 0.5 | 0.4 |
| Taxation | 58.4 | 3.2 | 1.5 | 1.8 | 317.6 | 17.6* | 13.9 | 3.7 |
| Profit | 164.4 | 9.1 | -0.9 | 10.1 | 153.1 | 8.5 | -1.7 | 10.2 |
| Total* | **836.1** | | | | **1276.6** | | | |

Notes: 1) *recorded increases after privatization; ** total cost is the sum of all the cost of enterprises either before or after. *** Annual mean is the result of dividing total cost is the sum of all the cost of enterprises either before or after by the number of years before/after under consideration.
*Source*: Calculations based on Enterprise Financial Records, 1986-2003.

The other interesting impact of privatization on taxation was the mixed sector effect. Tax burden shifted from trade and services to industry explained by increased business after privatization. While taxation increased 4.4 times overall, the increase for industry was 7 times while trade and services just doubled. Before privatization, trade and services tax expenditure did not only exceed but also bore slightly more tax burden than industry; but this altered after privatization where industry bore the bigger weight (Refer to Table 3.4, row 9; Table 3.5 row 8).

The Table 3.5 also shows that the profit in nominal terms has been constant from 1986 to 1993 (almost constant), so in real terms profits decreased. High taxation was problematic because it did not only cause unemployment in tobacco sub-sector but also limited usage of modern communication equipment. First, BATU argued that the high incidence of taxes on cigarettes were out of line with the size of the economy whereby Uganda had the third highest tax rates on cigarettes in Africa behind Ghana and Kenya, but the per capita income of the latter two doubled Uganda's.[102] Second, mobile phone tariffs were also high due to taxes on the telecommunications sector especially excise duty. For every Shs100 charged, Shs. 28 went to government, divided into 18 VAT and 10 excise duty.[103] In two years, tax on airtime doubled from 5 % in 2002 to 10% 2004, reducing operators' profits and re-investment because they strove to avoid transferring the tax to customers.[104] Uganda had most of the highest mobile phone tax rates in East Africa. Kenya's rate was at 10 %, Tanzania's 7 %, while Rwanda was promising to introduce the duty. This meant that Ugandans paid between 25-30 % taxes more compared with Africa's 17 % average. There were over three million mobile phone users with 9 % penetration.[105] The high duties affected affordability of the services especially in rural areas. Although mobile phones were available countrywide, few people afforded them because of the high taxes payable by consumers.[106] This in turn widened the rural-urban divide. Communications growth was only in the urban areas, with the majority of rural Ugandans lacking access to the services. Government had a rural communication policy developed in 2001 to address the urban-rural divide[107] but both MTN[108] and CELTE[109] also had plans to improve the situation.

*Tax Review*

Given the tax problems of PSOEs, it was deemed necessary to reconsider reviewing tax policy in order to strike a balance between maximum tax revenue and investment promotion. Some enterprises like UCWL, UEB and Sugar industry could have benefited from lower taxation that could have increased their profitability by 43.2 %, .50.3 % and 20 % respectively [basing on Table 3.4]. Basing on UBL analysis, for instance, reform of the enterprises pointed to tax policies review. The UBL (UBL, 1998/1999:14) report revealed that taxes accounted for 50.3% of total costs in 1999. This meant that UBL did not require a change of ownership to solve the majority (73.6%) of its problems and privatization would be a total waste without tax policy change on beer. Possible options to privatization could have included reduction in the tax rates on sugar and beer respectively. Comparing the effect of a tax reduction on tax revenue and compliance, maybe the measure could have had bad effects on tax revenue. The current corporation tax (CT) rate was 30 %. Success in tax revenue enhancement, however, did not spread to SOEs' sales proceeds.

### *3.2.2. Privatization Moneys*

As can be recalled, World Bank anticipated raising US$500 million sales proceeds from the 146 SOEs. The ambitions fell short of the targets generating only sh.303 billion (about $172 million at US$1=1760), representing 35.6 % by end of June 2006 [See Table 3.6].

**Table 3.6 Accumulated Divestiture and Redundancy Accounts in Billion Shs. 1992-2006**

| Sources & Utilization | Accumulated 1-9-93 to 30-6-06 | | | Percentage |
|---|---|---|---|---|
| **Revenue** | **Divestiture** | **Pre-Divestiture** | Total | |
| Sales proceeds | | | 303 | 76.2 |
| Government contribution | | | 40.5 | 10.2 |
| others | | | 54.3 | 13.6 |
| Total | | | 397.8 | 100 |
| **Expenditure: Divestiture costs (DIV) and Pre-Divestiture Costs** | | | | |
| Provision for Bad and Doubtful debts | 0.1 | - | 0.1 | |
| Bad & doubtful debts | 29.2 | - | 29.2 | 7.3 |
| Caretaker costs (4) | 2.4 | 45.1 | 47.6 | 11.9 |
| Creditors takeover (2) | 70.9 | 10.5 | 81.4 | 20.5 |
| Professional fees (3) | 45.1 | 26.4 | 71.5 | 17.9 |
| Arbitration Award | 7.9 | - | 7.9 | 2 |
| Terminal benefits (1) | 74.9 | 38.5 | 113.4 | 28.5 |
| UTL | 4.2 | - | 4.2 | 1 |
| Warehouse | 0.2 | .0.1 | 0.3 | .03 |
| Deficit | | | 422 | 10.6 |
| Total | 234.9 (59 %) | 120.6 (41 %) | 397.8 | 99.7 |

*Notes: (1)-(4) is importance in descending order*

*Source:* Computed from Privatization Unit data, 2006

Cash proceeds from SOEs' sales were deposited in three different accounts including fixed deposits, operational accounts and the dollar account (Ddumba-Ssentamu & Mugume, 2001:44). These accounts were operated by the Secretary to the Treasury and the Under-secretary to the Finance Ministry. This one account was in deficit as at end of June 2006 (See table 3.6, row 17).

The divesture proceeds by end of June 2006 amounted to Shs. 303 billion (US$172 m) and 59 % went into divestiture costs, and 41 % in pre-divestiture costs. There was a deficit of Shs. 42.3 billion representing 10.6 %. Hence, over 89 per cent of the sales proceeds went into divestiture costs, the major ones of which included terminal benefits, creditors or assumed takeover of liabilities, professional fees and caretaker costs.

Terminal benefits accumulated to Shs. 113.4 billion representing 37.3 percent of sales proceeds and 28.5 % of total revenue respectively. Most of this money arose due to payment of outstanding pension liabilities amounting to Shs. 14.6 billion taken over by PURSP for UP & TC former workers. The Uganda Communications Employee contributory Pension Scheme (UCECPSW) was finally regularized and could therefore legally administer the pension scheme on behalf of the beneficiaries as well as undertake investments that would yield returns. Another lump sum payment of pension of Shs. 7.2 billion was made to UEB former workers. Upon completion of the all residual issues, the two companies would be de-registered (MOFPED, 2006:13).

Assumed takeover of liabilities totaled Shs.81 billion and comprised liabilities assumed from divestiture of SOEs in accordance with PERDS statute. These amounts were still subject to negotiation as part of the debt swap with the relevant parties including the Uganda government. The determination of the eventual amount payable and terms and conditions of payment were subject to the outcome of these negotiations (MOFPED, 2006:15).

Arbitration awards totaled Shs. 8 billion representing 2 %. In 2006, some of these were paid to a Tunisian firm that had bought Nile International Hotel in Kampala. Upon evaluation of the management contract signed between the Uganda Government with M/S Tahar Fourati Hotels Limited in 1995, the Nile International Hotel Board concluded that the buyer had failed to run the hotel according to the business plan and annual budgets deposited on bidding, leading to cancellation of the first divestiture of the Hotel. The buyers sued government for wrongful termination of the contract.

Upon advice of the Solicitor General and Parliamentary approval, government settled for an out-of-court award of Shs. 7.9 billion as full and final settlement to the buyers' and lawyers' fees (MOFPED, 2006:12).

### *3.3. Summary*

The chapter set out to establish the fiscal impact of privatization by looking at subsidies as expenditure and taxes from PSOEs as well as sale proceeds from divestiture as revenue. The findings reveal that the fiscal impact of privatization was mixed: leaving the subsidies more or less the same and increasing taxation from PSOEs but failing to achieve the expected sales proceeds. As already hinted, subsidies in nominal prices have been constant from the period 1992/1993 to 2004/2005. In today's Uganda, however, there was no link between subsidies and the central government budget deficit (very clear in Figure 3.1). In addition, tax from PSOEs increased four times as a result of increased business after privatization particularly in industry that increased 7 times while trade and services just doubled. Lastly, privatization failed to achieve the sales target of US $500 million target set by World Bank and just managed US$172 million by end of June 2006 due to asset undervaluation and stripping.

The theoretical implication was that although popular belief had it that SOEs in red were the some of the major causes of budget deficits, de-linking of the subsidies from budget deficits in 1998/9 and subsequent steep rise in budget deficit seemed to suggested that in away SOEs partly financed the government activities in general and budget deficits in particular. In Uganda, after de-linking subsidies from budget deficits, the latter started rising steeply after 1998/9 seeming to support that although there might have been other causes such as import price swings, falling international prices for major exports such as coffee and inflation in donor countries; SOEs impact could not be completely ruled out as possible a possible cause. This tended to suggest that SOEs partly subsidized or financed budget deficits.

# Chapter 4

## 4. Privatization and Corporate Governance

This chapter investigates whether public and private enterprises are managed differently by comparing how SOEs and PSOEs are managed. If public and private companies were managed differently then privatization would be expected to impact on firm performance. If, however, SOEs and PSOEs were managed in a similar manner, then privatization would not normally be expected to influence firm performance. In addition, ther chapter attempts to link corporate governance to firm performance. I define corporate governance to include objective setting, board functions and transaction costs. The research questions I pose include: are SOEs objectives, board functions, and transaction costs different from PSOEs.

I carried out this investigation because in chapter one, Galal (1994) theoretically argued that in monopoly conditions, the effect of privatization on firm performance was unpredictable and depended on how the private sector was managed. Frydman *et al* (1999) support the argument further that for privatization to be effective, management had to change. This would imply that privatization's impact on firm performance was indirect, operating through corporate governance, and involved two steps: the first being privatization on corporate governance and the second corporate governance on firm performance. Bothe the former and the latter are focus of this chapter.

Current preoccupation with corporate governance can be pinpointed at two events of the East Asian Crisis of 1997 and the American corporate crises of 2001-2002. The East Asian Crisis of 1997 saw the economies of Malaysia, Indonesia, South Korea, Thailand and The Philippines severely affected by the exit of foreign capital after property assets collapsed. The absence of corporate governance mechanisms highlighted the weaknesses of the institutions in these economies. The second event was the American corporate crises of 2001-2002 which saw the collapse of two big corporations of Enron and WorldCom, and subsequent scandals and collapses in other corporations such as Arthur Andersen, Global Crossing and Tyco.

Corporate governance is a multi-faceted subject that has come to mean two things. First, it is the processes by which companies are directed and controlled. It is the set of processes, customs, policies, laws and institutions affecting the way corporation are managed broken into directing, administering and controlling. Management is the act of directing and controlling a large group of people for the purpose of coordinating and harmonizing the group towards accomplishing a goal beyond the scope of individual effort and includes the deployment and manipulation of human, financial, technological, and natural resources.[110] In this section, I define corporate governance differently as objectives setting and board functions. The second meaning of the term refers to a field in economics, which studies the various issues arising from the separation of ownership and control. This is a relationship among the stakeholders and the goals for which the corporation is governed, the principal players being the shareholders and board of directors.[111] An important theme of corporate governance deals with issues of accountability and fiduciary duty, essentially advocating the implementation of guidelines and mechanisms to ensure good behaviour and protection of shareholders.[112] Hence, I further define corporate governance as changes in transaction costs in addition to objective setting and board functions.

The chapter argues that the impact of privatization on corporate governance defined differently as objective setting, board functions and transactions costs depended on how the term was conceptualized. As objective setting, this study results revealed an improvement to the statutory bodies' objective-setting due to corporatization that separated commercial from non-commercial activities of the SOEs in preparation for their sale. Among the other SOEs, however, namely J-Vs and 100% SOEs, there was no difference between SOEs and PSOEs largely due to the remaining unsold 38 out of a total of 146 slated for sale as well as the partial privatizations. As board operations, there was neither change in terms of strategy explained by capacity problems, colonial history and political appointments that recruited inferior staff nor in terms of monitoring particularly among the partially privatized SOEs. As transaction costs, the results were mixed for the overall performance and individual votes. While there was no overall net change, individual votes fell for communications, monitoring, and entertainment explained by reduction in waste, competition and reduction in over-billing while auditing was explained by bankruptcy. On the contrary, advertising and legal costs increased after privatization due to increased competition in the oil trading sub-sector that necessitated Shell to increase advertising. The increased legal charges were due to change from public to private provision of legal services in the banking sub-sector.

The chapter has three sections. The first deals with an investigation involving the manner in which the public and private enterprises were managed with respect objectives; and the board functions and their impact on firm performance. The second deals with transactions costs and their impact on SOEs and PSOEs performance while the third and last is the conclusion.

### *4.1. Corporate Governance as Management before and after privatization*

In Uganda, the law that governed public enterprises depended on the nature of the public enterprise under consideration. Essentially, however, there were three SOE types: statutory corporations, private companies entirely owned (100 %) by state and the J-Vs. The statutory corporations were established either by Act of Parliament or Decree. These laws laid out how the enterprises were established, governed and regulated. Being seventy-two (72) in number; they included UP &TC, UCB, BOU, UDC, NIC, URC, NSSF, marketing boards and Apollo Hotel Corporation, for example. The second type were private companies entirely owned (100 %) by the state and formed under the Companies Act. They included Nile Hotel, Foods and Beverages Limited, TUMPECO, and Transocean. These were established to carry out commercial business on behalf of the state. The need for commercial state enterprises was greatest especially after the expulsion of Asians in 1972. The Asians used to monopolise trade and other aspects of commerce. Normally, two ministries - Finance and the parent Ministry - jointly owned 100 % SOEs. In the third group were joint ventures (J-Vs) where government owned shares as majority (at least 51 %) such as NYTIL, Bank of Baroda; and Oil companies like Shell, Caltex, Esso, Agip and Total. Obote established the J-Vs to attract expertise and foreign investment in the early 1960s; although he later on targeted reducing foreign control that had caused a skewed income distribution in 1970s. The 1969 census had revealed that Asians who where not even 1% of the population controlled 75% of GDP. President Obote, reacting to this inequality nationalized over 68 private firms in May 1970. The J-Vs were over 18 in number just before privatization. All the three types of SOEs were managed and regulated differently, although the Companies Act governed the last two. Despite all being SOEs, they differed in purpose and objectives, and board functions.

### 4.1.1. SOEs' Objectives before and after Privatization

As already seen in chapter one, the differences between public and private enterprises lies in their objectives. Whereas private enterprises pursue profit, SOEs may pursue whatever the government wants and is able to finance such as the promotion of social welfare by not exploiting monopoly position or by hiring a large number of redundant workers (Galal *et al*, 1995:10). Privatization materially affects management behaviour with important implications on efficiency. Ownership is, hence, important because it affects performance indirectly through management and the **objectives** of owners of the firms and the systems of **monitoring** managerial performance (Vickers and Yallow, 1988**).** So ownership is important, but observers have to look at objectives more than the mere ownership set-up. The problems of SOE management were not only limited to the non-commercial objectives of statutory bodies but also linked to failure to formulate objectives by more commercially oriented SOEs such as the J-Vs and 100 % SOEs.

Unlike privatization literature that was awash with how SOEs non-commercial objectives led to failure,[113] in Uganda the non-commercial objectives were limited mostly to statutory bodies that also served as regulatory bodies**.** These bodies mainly served a strategic purpose. For instance, the UP & TC controlled and regulated radio communications that was considered a security problem if left in private hands. Generally, the objectives of these bodies were non-commercial but were of a development focus and frequently carried words such as 'regulate', 'promote', 'finance', 'establish', 'market', or 'develop' certain activities of the economy. Although they did not fully target profit, they were supposed to operate commercially according regulations reviewed (see Table 4.1). Unlike statutory bodies, both the J-Vs and 100 % SOEs generally had commercial objectives.

## Table 4 . 1 Statutory SOEs' Objectives/Functions before privatization

| Enterprise | Objectives/Functions |
|---|---|
| Uganda Commercial Bank (UCB)-functions | 1) Accept deposits & keep customers' accounts; 2) Lend against or without security; 3) Transfer. Remit money locally or internationally; 4) Discount bills; 5) Trade in foreign exchange; 6) Operate Agencies (project) Funds; 7) Act as correspondents of other banks; 8) Buy Stocks and other securities; Underwrite, guarantee, negotiate, and give indemnities. Act 22/1965, s.3 (1) a-w. |
| NSSF | Ensure a secure, profitable and effective financial management of the fund for the benefit of the workers and country Act 8/1985, s.3.(3) |
| NIC | To engage in business as any other insurer |
| National Textiles Board (NTB)-functions | 1) Produce, process, manufacture & distribution of textiles; 2) initiate, organize, assist, finance & research in textile industry; 3) manage and control textile industry; 4) Establish, promote, finance, acquire and manage related industries in textile; Decree 22/1974, s.3 (1) a-f |
| Uganda Air Cargo Corporation (Objectives & functions) | 1) Establish and operate air transport services within and outside Uganda relating to air freight, air passengers, air passenger chartered flights and airmail services; 2) Give instructions and train flying of airplanes. Act 18/1994, s.6 (a & b) |
| Uganda Railway Corporation (URC)-objects & functions | Construct, operate & maintenance of a railway, marine and road services both in Uganda and abroad for the carriage of passengers and goods as well as incidental activities towards attainment of objectives; 2) carry out storage; 3) clearing and forwarding services; 4) provide accommodation, refreshments and other amenities. Statute 13/1992, s.4 (a- b, s.5 (1(a-p |
| UP & TC (objects) | 1) Commercially provide postal and telecommunications services within and outside Uganda; and 2) regulate and control radio communications operated from or received in Uganda |
| Coffee Marketing Board (CMB)-objects & functions | 1) Purchase all the coffee produced by the licensed processing factories conforming to the established grades; 2) operate an incentive scheme through differential payments basing on grades; 3) regulate quality; 4) impose penalties and discounts for unclean coffee; 5) store and let stores for storage of the coffee; and 6) maintain and stabilize the price of coffee within and outside Uganda; Act 40/1969, s.2 (a); s. 3(5) b—m |
| Uganda Tourist Development Corporation (UTDC) -objectives | **Promote and develop Tourism Industry** 1) acquire, design, establish, construct and run hotels, restaurants, cafes, refreshment rooms, rest houses, camping sites, water skiing facilities, hunting, lodges, clubs, cinemas, casinos, amusement parks, aquariums, holiday resorts and places of interest and entertainment of *all kinds of tourists*; 2) establish, operate and manage all kinds of shops both duty free & otherwise; establish travel agencies & work as agents for all types of transport & organize tours locally & elsewhere; 3) own & manage road & water transport vehicles for tourist purposes; 4) form, promote, manage, control, finance tourist based firms; 5) Finance & guarantee loans for tourist development; 5) liaise with other related institutions. Decree 23/1974, s.2. (a-g) |
| Uganda Tourist Board (UTB)-functions | 1) Promote, market and popularize Uganda as a tourist destination; 2) Encourage investment in Tourism; 3) liaise with UIA & World Tourist Organization; 4) Promote and sponsor educational programmes in the industry; 5) provide or co-ordinate consultancy provision services; 6) carry out research and mobilization; 7) set, enforce and monitor standards. Act 15/1994, s.9 (a-g) |
| UCC (functions) | **1)** Establish cement works or factories; 2) organize and control and staff of firms in cement industry; 3) distribute & market cement. Decree 26/1974, s.2 (2) a-b |
| Bank of Uganda (BOU) (functions) | Formulate & implement monetary policy to achieve economic stability 1) perform all roles of central bank such as external assets reserve maintenance, issue currency notes & coins; banker to government, financial adviser to government and manager of the public debt, act as agent in financial matters of government, banker to financial institutions; 2) supervise, regulate, control an discipline financial institutions, insurance companies & pension schemes; 3) participate in economic growth & development; 4) maintenance of monetary stability. Statute 5/1993, s.5 (1 & 2) |
| National Housing Corp. –NHC (Objects & functions) | 1) Undertake the development, building and management of estate houses; 2) Build, own, operate and transfers houses, and estates; 3) do the business of building houses. Cap 321, NHC Act |
| National Planning Authority fn | Plan and advise cabinet on 1) Economic and Social development 2) Effective and efficiency use of resources of Uganda in order to attain the **maximum rate of growth of output**. |
| Uganda steel Corporation (Functions) | 1) Manufacture steel from iron & scrap; 2) make steel products e.g. plates, bars, screws, wire, nails etc; 3) organize & control management of firms in steel industry; 4) establish, promote, finance & acquire, manage other firms in the steel manufacture; 5) advise Minister on matters of steel and iron. Decree 25/1974, s.2 (1) a-e) |
| Uganda Tea Growers Corporation (UTGC)-functions & duties | 1) Encourage the formation of group of tea growers into co-operative societies with objective of acquiring tea processing factories; 2) prepare overall plans for tea industry development; 3) negotiate green leaf agreements on behalf of the tea growers or co-operative society; 4) organize inspection of green leaf & establishment & inspection of collection centre for transportation and storage; 5) organize transportation, sale and marketing of processed tea; 6) negotiate for financing and construction an d arrange for the management of the factories; set up and maintain training centre and experimental tea stations; negotiate with government for the construction, improvement and maintenance of roads and other transport for collection of green leaf and distribution of processed tea; 7) control the processing of green leaf. Act 3/1966, s. 3(1) a-I |

*Notes:* UCC=Uganda Cement Corporation; UP & TC=Uganda Posts & Telecommunication corporation; NIC=National Insurance Corporation

*Source*: Various Regulations

Before privatization, most SOEs lacked objectives and, if they existed at all, they were poorly formulated, unachievable, supply-driven and generally non-commercial.

Most corporations failed to formulate clear objectives. Frequently, only a statement of functions sufficed explained by lack of capacity and partly government failure. First, the British colonialists made laws that hindered Africans from entering trade and Asians from owning land. The political economy that, therefore, emerged was African peasants; Asian traders; and European administrators, bankers and political elite.

In turn, the colonialists allowed the Indians to trade because they where trading in British merchandise and also because they were outside the region and would not conspire with the colonized Africans.[5] This colonial mentoring persisted whereby the African was ignorant of how business ran.[6] Even after independence, the training of Ugandans in business administration was elitist and did not spread to wider private sector (employers) who were the policy makers in businesses. After privatization, changes in objective-setting were mixed: improving for statutory but recording no change for the J-Vs and 100 % state-owned.

On privatization, in order to prepare SOEs for sale popularly known as corporatization, commercial functions were separated from non-commercial ones. While the commercial functions and objectives were left to SOEs for sale, the non-commercial ones were left with regulatory bodies especially among the statutory bodies. Several statutory SOEs such as UP & TC, UEB, and UAC shelved their non-commercial functions to regulatory bodies of UCC, ERA, and CAA respectively. The impact to governance was an improvement in objective setting for the PSOEs, especially those that emerged from former statutory bodies such as UEB, UP & TC, and UAC. But the improvement in objective-setting among statutory bodies did not spread to J-Vs and 100 % PSOEs.

After privatisation, a questionnaire given to PSOEs to fill was returned blank. At least, the objectives were not written down on paper. This implied that despite privatization, the objective setting did not change much in PSOEs, especially the former J-Vs and 100 % due to capacity problems since the majority owners were not trained in management science. As such, to dream of improved corporate governance after privatization was naive. In order to bring about such a change, there was need for less elitist courses tailored for employers or potential business owners.

It is interesting to note, however, that a project for promoting corporate governance in Uganda was instituted by the Institute of Corporate Governance of Uganda (ICGU) and worked closely with PURSP. ICGU delivers seminars and workshops initially with a bias of SOEs as preparation for private sector participation where divestiture was expected. The expectation was that corporate governance would be entrenched in the PSOEs to pave the way for private sector-led growth. During the year 2005/6 alone, a total 138 senior managers and members of the boards of directors of key SOEs and private companies were trained (MOFPED, 2006:27). While both objective setting and board functions were equally bad before privatization, positive indicators in the former did not spread to the latter after privatization.

#### *4.1.2 Board function before and after Privatization*

It has been argued that the differences between public and private firms arise due to objectives of the two types. In a private enterprise, the owners, directors and managers perform distinct roles. The shareholders, as owners define the goals (G), set objectives (O), appoint directors (D) and dismiss them, approve the annual accounts (A) and dividends (D) (GODAD). Then the board provides strategic guidance, evaluates performance and appoints, motivates and fires the chief executive officer (SMEH). Lastly, the management develops the alternative plans, strategies and programmes; manages resources and daily decision-making and control of operations performance.[7] SOEs boards in Uganda jumbled up roles, the worst scenario being J-Vs under UDC. I investigate strategic management and hiring and firing of managers before and after privatization and handle monitoring in the section on transactions costs.

Before privatization, one interesting issue that cut across SOE management in Uganda was the fact that the top decision-making aspect of the SOEs was of two types and located either outside a particular enterprise and served a group of enterprises such as UDC subsidiaries (J-Vs) or within (inside) it as was the 100 % SOEs and the statutory bodies.[8] Locating the board outside the SOEs was one of major causes of failure of some SOEs.

SOE boards, particularly J-Vs, simply neither performed strategic planning nor monitoring and evaluation but instead degenerated to running day-to-day operations. First, UDC management, shareholders and directors failed to put in place alternative plans and strategies in a rapidly changing policy environment explained by the monopoly position enjoyed by most UDC subsidiaries that did not force them to be either innovative or aggressive compared to the private sector.

Worse still, Board meetings were not taken seriously as a forum for policy-making but just as a ritual to receive some money or partying. For instance, Gomba Motors Board held only two meetings in the 1986 both of which were in December. For the two meetings a total of Shs. 7.6 million (US$3790) was given and each director was paid between Shs. 450, 000= (US$225) and Shs. 850, 000= (US$425). In addition, there were also two board committee meetings, two of which lacked quorum being attended by two directors only. On the third occasion, and to show the lack of seriousness in SOE board functioning, a general purpose board committee meeting was called purposely for a luncheon that cost Shs. 680, 000= (US$340) and on yet another occasion, the Chairman simply paid each director Shs. 100, 000= (US$50) although no meeting took place.[9] It was therefore, not surprising that UDC subsidiaries were inferior in performance to other SOEs.

First, the accounts were simply not made while those that existed had errors and did not give a true picture of the state of affairs. For instance, UAC did not keep books for eight years from the time it was set up in 1976; the same was the case with UCB after 1994. Second, even the few reports that were made were never acted upon. UDC received monthly reports of unstandardized nature of production, sales, trading profit and loss, cash flows and working capital position and personnel. Although monitoring exposed deviations from budgeted positions, the information was never processed to provide performance indicators. There were several gross abuses as well as late submissions.[10] The failure to process the information from the subsidiaries meant that UDC and MOIT action was not based on facts. The mediocre performance of SOE boards was explained by organizational structure, political appointments, and absentee boards.

**Table 4 . 2 Board Functions of 100 % SOEs and Joint Ventures (J-Vs) in Uganda before Privatization**

| Board Functions/SOEs | 1 | 2 | 3 | 4 | 5 | 6 | 7 | jv1 | jv 2 | jv 3 | jv 4 | jv 5 | jv 6 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cause books of Accounts (OS) | x | x | | x | | x | x | x | | x | x | x | x |
| Appoint CEO +officers | | | | | | | | | | | | x | |
| Appoint P/A + official seal | x | x | x | x | x | x | | x | x | x | | x | x |
| Appoint Directors (OS) | x | | | | | | | | | | | | |
| Charge Company Assets | x | x | x | | | | x | x | | | | | |
| Adjust number of Directors | | | | | x | | | x | | | | | |
| Authorize dividend (OS) | x | x | x | x | x | x | x | x | x | x | x | x | x |
| Appoint Company Secretary | x | | x | | x | x | x | x | | | x | x | |
| Adjust borrowing Limits | | x | | | | | | | | | | | |
| Cause Budgets preparation | | x | | | | | | | | | | | |
| Appoint Managing Director | | x | x | | x | x | x | | | | | | |
| Appoint Chairman | | | | | | | | | | x | x | | x |
| Required Qualifying shares | 0 | | | | | 0 | | | 5 | 0 | | | 0 |
| Number of Directors | 3-10 | 7(4g, 3) | 2-9 | 7 | 2-9 | 2-9 | 3-10 | 4-7 | 2-5 | 2-7 | 4-8 | 3-5 (2g) | 4(a, b) |

Notes 1) : 1=Associated Paper Industry, 2=Nile Hotel international, 3=Lango Development Company, 4=Uganda Transport Company (UTC); 5= Uganda Meat Parkers-Kampala, 6=Kulubya Property, 7=Associated Match Company (AMCO); JV1=Uganda Clay Limited (UCWL); JV2=Transocean U Limited; JV3=BATU; JV4=African Textile Mills; JV5=Bank of Baroda U Limited; and JV6=UFEL Note 2) : x represents Yes; Note 3: G directors appointed by government, *Note 4* P/A=power of attorney; *Note 5)* JV=joint venture; A shares[114]; B shares = The second tier of classified stock.; G=government.

*Source: Articles and Memorandum of Association of Mentioned SOEs.*

*4.1.2.1. Organizational structure*

Before privatization, the organizational structure of SOEs, was not fully drawn or it was never implemented to show who was responsible to whom and for what among MOIT and UDC on one hand, and between UDC and subsidiaries (J-Vs) on the other hand.

MOIT and UDC never synchronized their activities concerning J-Vs. Subsidiaries and associated companies complained of unnecessary interference either from MOIT or UDC. Often, the MOIT bypassed UDC on policy matters and dealt with subsidiaries, ignoring the need to inform UDC. Unaware of what MOIT had done, UDC would issue conflicting directives especially in the matters of appointment, negotiation with foreign institutions and salary reviews.[12] As an example, appointments of the chief executives in the subsidiaries were at times made outside UDC. UDC as a majority shareholder in the subsidiaries did not always appoint the board. In at least five cases, the MOIT or the Prime Minister's Office interfered in board appointment. Also, in some enterprises, the GMs/MDs were appointed politically either directly from President's Office or the MOIT.[13]

The relationship between UDC and the subsidiaries extended beyond ownership role into co-ordination, supervision of resources and daily management of the enterprises' operations.[14] A UDC chief executive had two roles: one of UDC chief executive and the other as the Board Chairman of most of the UDC subsidiaries deemed to represent an extremely busy schedule. As Chief of the UDC, the Chairman had over ten officers reporting to him directly including five Executive Directors of finance, accounts, and audit. In addition to the UDC Chairman, many UDC Directors also sat on boards of subsidiaries (J-Vs). The subsidiaries themselves called at least two board meetings every month representing a minimum of 40 board meetings for the twenty SOEs deemed detrimental for efficient running of the J-Vs.[15] The gravity of participation in meetings of subsidiaries implied that the UDC chief would be in at least a subsidiary daily throughout the month, or that he would not chair some meetings if they fell on the same day.

*4.1.2.2. Political appointments*

In Ugandan SOEs, the representative of 'ordinary shareholders' or 'taxpayers' turned out to be the Finance Minister, the Parent Ministry, the President, or the UDC. In a few exceptions, the supervising Minister appointed the General Manager, Chief Executive Officer, Chairman or Managing Director, as they used to be called, and the other directors. But in some cases such as UCB, the President appointed the Managing Director but this was changed later and fell in line with the usual procedure of the appointments by Minister.

Unlike the private sector where directors are appointed by shareholders, SOE directors were appointed either by the politicians, Board, or by delegation. In some other instances, the Minister appointed the chief executive but in consultation with the Board as was in the URC. The Board, as opposed to the Minister, appointed the Company Secretary in NIC, NTB, UCC and Uganda Air Cargo Corporation. Unlike the statutory SOEs, directors in the 100 % SOEs could delegate to an 'alternate director' to act for them.[16]

Although, the regulations emphasised board appointments based on quality and technical knowledge, the political machinery of all regimes fluffed this criterion. While regulations emphasised technical knowledge, politics always played a key role. According to law, in order to qualify as a director in an SOE normally required knowledge in business administration, finance, economics and commerce. Other specialized SOEs like banking also needed banking experience while URC needed industrialists, engineers, and knowledge in transport. Since SOEs were, however, owned and financed by government, politics played a part in recruitment of both directors and staff as was the case in NYTIL, Meat Parkers and Lira Spinning Mill; and Export and Import Corporation by President Obote and later by his successor Amin. President Amin, for instance, appointed an illiterate from the Secret Service Unit [17] to be Managing Director in Transocean in Mombasa, Kenya in 1974. Such political appointments resulted into inferior candidates.

Such political appointments were a major source of failure in running the SOEs and, in most cases, were found wanting. For instance, most appointees considered it as a gift from the politicians and felt free to pursue personal goals. Hence, the Board constituted no more than a collection of self-motivated individuals who lacked the expertise and experience to steer the SOEs to efficiency and maximum benefit for growth of the economy. In some instances, SOE Board members were ignorant of the procedures and tasks they were supposed to perform. In such cases, it was at one time thought necessary that a reference manual and letters of appointment spelling out certain issues to preserve the attainment of society as opposed to personal goals be put in place. [18] The failure to meet professional and academic eligibility criteria greatly weakened the board functions before privatization.

While it was too early to estimate the degree of reduction in political appointments in PSOEs, it suffices to say that there remained 38 out of 146 SOEs to sell and another unknown number of mixed SOEs in order to completely solve the problem of political appointments. The latter problem of mixed enterprises was big and investors complained that government dictated terms even with a minority shareholding.

*4.1.2.3. Absentee boards*

In chapter 1, I theoretically argued that Board size and who appoints members were two major issues influencing differences between the public and private enterprises in the world. Whereas Board size in the private sector company is normally small and is appointed by shareholders who have **a quantifiable stake** in the enterprise, and the Board is responsible for seeing the business of the company is conducted in their best interests, this was not the case in SOEs. Important in Uganda, however, was not the size but rather the absence of board effectiveness.

But while board size was blamed, the actual number of active board at any one time was at times less than legislated. For instance, while the UCB statute provided for a deputy director, this post was never filled for all the 37 years of the bank's life from 1965. In addition, in several other instances, directors whose terms lapsed were never retired, nor were new recruitments done on the death of some directors. For GCPC, a Board of Directors appointed in 1991 for a two-year term ending August 1993 was allowed to continue for seven years. Instead of retiring the old Board, the MoF allowed the existing Board to continue in office till a new one was appointed. Five years later, no new Board was appointed even when two of the members had died, an act that undermined the board's independence and effectiveness.[19] But a more telling example was UDC itself. For UDC, the changing political regimes made it impossible for it to always have a Board. For instance, while UDC had a Board from 1952 to 1970, it lacked one between 1971 and 1979. After the fall of Amin in 1979, the MOIT appointed a new board the following year.[20]

Like with appointments, while it was too early to estimate the degree of improvement in board effectiveness in PSOEs, it suffices to say that there remained 38 SOEs to sell in order to completely solve the problem of big board sizes and composition. Another issue to consider in solving the problem of big board sizes and composition was that of mixed enterprises where government still retained some minority shares even after privatization and investors complained about government dictating terms even when it was a minority shareholder.

*4.1.2.4. Donor Interests*

UDC objectives were hardly met because it could not individually originate a feasibility study outside donor interest and receive funding. UDC reliance on foreign grants therefore tended to dictate implementation of the type of projects that foreign interests needed but not what management approved of (UDC, 1990: 6 -7). Hence, the government policy of foreign funding also determined the project types that in most cases satisfied donor (financer) interests than UDC or Ugandan interests of growth and development. Tied aid became a hindrance to development and created a negative relationship between foreign finance (FDI) and development especially after 1962. It was not surprising, therefore, that UDC subsidiaries were inferior in performance to other SOEs before privatization.

**Impact of SOE board functions on firm performance before privatization**

It should be recalled that UDC was established to finance, manage, and facilitate the industrial and economic development of Uganda through the starting of new projects [UDC s. 4 (a)]; application of modem and efficient methods of production in existing enterprises [UDC s.4 (b)]; and, to conduct research in the industrial and mineral potentialities of Uganda [UDC s.4 (c)]. In order to achieve its objectives UDC was empowered to:

i. Promote and finance any undertaking in Uganda;

ii. To advance money, or underwrite an enterprise proposing to establish, modernize, or expand business in Uganda;

iii. To manage, develop, let, hire or buy assets and securities of any of its subsidiaries as well as draw, make, endorse negotiable instruments;

iv. Guarantee enterprises, raise money by issue of debentures or debenture stock, and borrow and lend money for the purposes of running the corporation;

v. Conduct research in the agricultural and mineral wealth of the country and establish and administer research institutes and bodies;

vi. To act as manager, agent, secretary of any undertaking and to appoint any person to act on behalf of the corporation as Director or any other capacity; and to act as an agent for any undertaking carrying on business in Uganda and overseas; and

vii. To establish a pension and providence fund for the employees of the company in which UDC had an interest whether subsidiary, associate, or other statutory body [UDC s.5 (1) (a -k)].

The financial performance of UDC group of companies was dismal just prior to privatization between 1986 and 1988 returning an operating loss except in 1988 when a profit of 72 million was made. The profit in the year 1988 was exceptional because of the Shs. 222 million made by UGMC through sales of wheat from barter trade. The loss before tax and interest was Shs. 265 million in 1988 and profit-sales ratio of negative 9.7 % compared to 6.4 % of other manufacturing enterprises in the public sector. In addition, most UDC group of companies had solvency and liquidity problems and all the UDC companies were operating below 50 % capacity, with obsolete plants, raw material shortages, undercapitalization problems, low motivation and morale, poor maintenance, failure of management to prepare alternate plans and strategies in a rapidly changing policy environment. The monopoly situation of most of the UDC group of companies did not encourage aggressiveness and innovativeness (UDC, 1990:6-7). While interference in the J-Vs day-to-day running by UDC resulted into poorer performance compared to purely SOEs; UDC closure during the initial stages of the privatization process resulted into not only insufficient investment levels but also led to neglected sectors by the private sector.

**Impact of SOE board functions on firm performance after privatization**

In the early 1990s, the government withdrew from doing business and put in place policies that gave the private sector wider roles. Such policies included privatization that also included winding up UDC during the initial stages of the privatization process, due to corruption that rendered its operations unfeasible and inefficient. The closure led to ignoring certain sectors and also caused insufficient development.

In 2003, government admitted that it erred in winding up UDC and planned to start a new agency to champion investment in strategic sectors. The revival of UDC would be a major policy reversal and an indication that the Government intended to play a major role in the economy again [21] explained by the insufficiency of private-sector-led growth and dislike by the private sector of certain sectors. First, Daudi Migereko, former minister for MOIT, argued the move was prompted by the need to have as many industries as possible to reduce unemployment. Migereko said there were several areas like mining and textile sectors, in which the Government would like to intervene because if the private sector was left on its own, it was not sufficient to foster industrialization. It was, therefore, important to have a combination of the private and public sectors. According to the *Indian Ocean Newsletter*, an official document on the national budget released in March, UDC revival was tentatively slated for beginning of July 2007. [22] Second, the government plans to revive the defunct UDC targeting investing in sectors that local and foreign investors had ignored after liberalization policy was established. Mukwaya, the Minister of Agriculture, said the policies had not entirely been fruitful because the private sector had not picked interest in investing in the agro-processing sector, a crucial sector to the country’s economic development. Given that agriculture was the backbone of the country interventions to industrialize it would yield enormous benefits to the economy. "There are priority sectors to the economy which private investors did not invest in despite the good policies.[23]

The revival of the UDC, however, was prompted more by the AGOA markets. Mr Geoffrey Onegi Obel, Senior Presidential Advisor on the African Growth Opportunities Act (AGOA), exclusively told *The Monitor,* a local daily, that the immediate task of the planned new organization were to tackle challenges that had emerged in Uganda's quest to export to the huge American market under AGOA. Other sources clarified that in order for Uganda to reap maximum benefit from AGOA there was urgent need for investment in agro-processing and textile industries. Under AGOA, Uganda exported textiles to USA but newer markets had emerged especially in the Middle East for fish, beef, mutton and other animal products that required heavy investment in processing facilities. [24]

SOEs normally intervened in causing investment in priority areas of the economy in which individuals did not invest despite the good policies or where government could venture directly. Almost all countries in the world had such bodies. For instance, Kenya had the Industrial and Commercial Development Corporation (ICDC); Tanzania has the National Development Corporation (TNDC) while even the wealthier United Kingdom- the Commonwealth Development Corporation (CDC). [25] While UDC closure caused more problems than solutions, retaining some SOEs did not improve corporate governance either. While closure of the UDC, a SOE-maker, caused economy-wide impacted negatively on performance; the other SOEs impact was less visible.

**Table 4 3 CG of Unsold SOEs & Gov't Minority Shareholding 2003/04-4**

| Compliance Indicator results | Average FY 1999/0-4/5 | 2003/4 | 2004/5 | 2004/5 change |
|---|---|---|---|---|
| Annual certificate of responsibility | 24 % | 21 % | 16 % | - 5 % |
| Audited accounts | 83 % | 84 % | 74 % | -10 % |
| Board of Directors | 90 % | 89 % | 89 % | 0 % |
| Budget & Operating Plan | 74 % | 71 % | 76 % | 5 % |
| Half Yearly reports | 40 % | 16 % | 18 % | 2 % |
| Internal Audit Functions | 21 % | 53 % | 53 % | 0 % |
| Average | 55 % | 56 % | 54 % | - 2 % |

*Note*: 1) *on a five-year average; 2)* Gov't=Government; CG=Corporate Governance

Source: PURSP, 2006, page 26

After privatization board functions gave mixed results for the partially privatized where government owned minority shares according to the PMU supervision report. The combined performance of SOEs with regard to six selected compliance indicators slightly declined from a score of 56 % in 2003/04 to 54 % in 2004/05 largely due to delays in the submission of audited accounts outlined in Table 4.3 (PURSP:200626). Despite the net decline, impact on individual votes was mixed.

The results showed no change in the indicators for the 'board of directors' and 'internal audit functions'; a slight improvement for 'budgets/operating plan' and 'half yearly reports'; a decline in the indicator for 'audited accounts' and the 'annual certificate of responsibility; as a result of delays in SOEs submitting and publishing of their audited accounts (PURSP:200626).

In order to estimate the degree of reduction in political decision-making in PSOEs, it suffices to say that these problems still existed due to the remaining 38 SOEs as well as the partial privatizations resulted into government minority shareholding but with capacity to dictate terms. In order to completely solve the problem of political decision-making, there was need to complete the selling of the remaining unsold 38 out of a total of 146 SOEs. That implied that political decisions in PSOEs still existed. The agency theory, however, states those management problems in firms are not unique to SOEs alone but also exist even in private firms that separate ownership from management. Like strategy, transactions costs also recorded not net change but, unlike the former, the latter individual votes recorded mixed results.

### *4.2. Corporate Governance as Separation of Ownership from Management*

It has been argued that the difference in performance between SOEs and private firms was not ownership *per se* but rather the separation of management from ownership. Although economic analysis normally assumes that the main objective of private enterprise is to maximize profits, the separation of ownership from management can make this impossible. The existence of shareholders and managers brings about the problems of principal-agent relationships (Rees, 1985).[26] An agency relationship is established when a principal delegates some rights over a resource to an agent who is bound by a contract to represent the principal's interest in return for payment. The problems arise from the differing objectives and availability of information of the shareholders and managers (Eggertsson, 1990). While the principal tries to induce the agent to act in the principal's interests, he lacks information about the circumstances and behaviour of the agent, which causes a monitoring problem (Vickers and Yallow, 1988). Since the agent collects more information, he is in most cases more knowledgeable than the principal, causing "opportunistic behaviour," agency costs and transaction costs. One solution to opportunistic behaviour was to carry out audits or sharing profits (Eggertsson, 1990). Empirically, I investigate the possibility of a difference in transaction costs between public and private sectors in Uganda.

Transaction costs refer to finding out what the relevant prices are, negotiating and concluding contracts and monitoring and enforcing these transactions. They are information, travel and communication, hospitality, default risks and contract enforcement costs. A common theory is that transaction costs decrease with privatization (Harriss *et al*, 1995; Harriss-White, 1995).[27] Alternatively put, SOE transaction costs tended to exceed those of the private sector. Transaction costs can be measured using cost effectiveness analysis comparing market with government. This is explained by the fact that the private sector is more cost-effective than SOEs or government. In case government operations turn out to be cheaper, this rare situation then requires explanation. The bigger transaction costs of government can be explained by the budget-maximizing behaviour of the bureaucrats already explained.

### 4.2.1. Transaction Costs before and after privatization

Evidence from 31 PSOEs studied revealed that on average annual transaction costs after privatization remained more or less the same after privatization in nominal terms at Shs. 1.4 billion (Refer to Table 4.4, column 3 & 7) attributed to privatization drive itself. Despite the general lack of change in transaction costs, individual votes gave mixed results: falling in communication and monitoring but rising for advertisement and legal elaborated on next.

**Table 4 4 Privatization Impact on 31 SOEs Transaction Costs in Uganda in Billions Shs. 1986-03**

| **Transactions Cost types** | **Before Privatization** | | | | **After Privatization** | | | |
|---|---|---|---|---|---|---|---|---|
| | Total TCs | Annual average | Annual mean for Industry | Annual mean for TRSE | Total TCs | Annual average | Annual mean for Industry | Annual mean for TRSE |
| Communication | 17.5 | 0.9 | 0.4 | 0.6 | 1.02 | 0.06 | 0.01 | 0.05 (-) |
| Advertising & Promotion | 4.1 | 0.2 | 0.1 | 0.08 | 15.5 | 0.8 | 0.2 | 0.6 (+) |
| Monitoring & Audit | 2.03 | 0.1 | 0.07 | 0.05 | 1.4 | 0.08 | 0.03 | 0.05 (-) |
| Legal Charges | 2.07 | 0.1 | 0.07 | 0.05 | 6.3 | 0.3 | 0.01 | 0.3 (+) |
| Entertainment | 1.1 | 0.06 | 0.01 | 0.05 | 0.7 | 0.04 | 0.01 | 0.03 (-) |
| Total | 30.5 | 1.4 | 0.6 | 0.83 | 24.5 | 1.4 | 0.3 | 1.1 (0) |

Notes: 1) total cost is the sum of all the cost of enterprises either before or after; 2 Annual mean is the result of dividing total cost is or the sum of all the cost of enterprises either before or after by the number of years before/after privatisation.; 3) + means increased, - means reduced
*Source*: Author's Calculations based on Company Financial records 1986-03.

While trade and services stepped up monitoring and auditing, industry reduced its expenditure and the two sectors exchanged positions before and after privatization. Before privatization, industry bore the heavier burden in auditing compared to the trade sector. After privatization, however, the trade and services sector overshadowed industry in monitoring attributed to stricter measures in the service and trade sector and collapse of industries.

### 4.2.1.1.Communication transaction costs before and after privatization

Communication costs fell from 0.9 bn to 0.06 bn representing 93.3 % explained by several factors such as unrealistic billings of the former UP & TC, reduced abuse of office telephones by parastatal staff that used to make unofficial calls on the expense of the SOEs, competition that saw four telephone providers CELTEL, MTN, UTL, and WARID and several other mail delivery providers compared to the monopoly UP &TC before privatization. Current telephone providers offered pre-paid services, reducing over-billing, while most workers in the few remaining SOEs used personal mobile phones for their personal calls. But it was difficult to tell exactly which of these factors contributed most to the reduction. Both before and after privatization TRSE costs exceeded those of industry explained by the existence of UP & TC in the TRSE.

### 4.2.1.2. Auditing Transaction costs before and after privatization

After privatization, auditing as measured by expenditure on this item changed drastically recording a net fall but exchanged positions between industry on one hand with trade and services on the other. Annual auditing costs fell by 54.8 % from Shs. 112.5 million (US$56, 250) and 79.2 million (US$38, 600) before and after privatization respectively [Refer to Table 4.1] explained by the World Bank as a lack of public awareness of the importance of a sound financial management system.[28] Although this was aimed at public service, the private sector was not different.

*Reporting requirements*

The law clearly defined what reports were to be produced, by whom and where to lodge them. For both 100% SOEs and J-Vs, company law required budgeting as well as keeping books of accounts. The statutory bodies required annual budgets submitted to the supervising Minister for approval.[29] Every company was required to prepare and present to the AGM a statement of profit and loss or income and expenditure not later than eighteen months after the incorporation and annually subsequently. The registrar could extend the period of eighteen months, and in case of a company extend the periods to either nine or twelve months. In addition, a balance sheet was to be made yearly and presented to the AGM at the same time as the profit and loss accounts or income and expenditure statements.

At the end of the financial year, holding companies had to present the accounts of the subsidiaries at the same time. Exemption from this rule included when the holding company was located abroad, or where the amounts involved were insignificant, or misleading or harmful to the business of the company or any of its subsidiaries, or the business of the subsidiary and holding company were different. [30]

In addition, it was a requirement to disclose detailed accounts of transactions and assets and liabilities at the registered office or any place and being open to inspection by the directors. Proper books of accounts were deemed not kept if they did not give a true and fair view of the state of the company's affairs. Any director who failed to take adequate steps to secure good books or by his own wilful act was liable to imprisonment for a maximum of one year or fined ten thousand shillings (US$50) or both. To avoid conviction one had to prove that he believed that he employed a competent and reliable person.[31] Penalty and the defence for the statutory were the same as the J-Vs. Unfortunately; the practice deviated greatly from the law because accounts were rarely made.

*The Ombudsmen*

Uganda company law also required every company to appoint at each AGM an auditor(s) to hold office for a year till the next AGM. At any AGM a retiring auditor was deemed to be re-appointed without any resolution being passed unless he/she did not qualify; the AGM appointed somebody else; or there was written notice of her unwillingness.[32] In case no auditor was re-appointed, the registrar could appoint a person to fill the vacancy. In this case, the company was to be given one week to give notice of the fact and on failure, the company and every officer of the company who would be in default would be fined.[33] In order to enforce the reporting, ministries, the AG, the UDC, and internal auditors were put in place.

In the management of SOEs a common phenomenon was the supervision of the SOE by a government Ministry. For instance:

i) Ministry of Agriculture, Animal Industry & Fisheries controlled Dairy Corporation;
ii) Ministry of Tourism, Wildlife and Antiquities controlled Uganda Hotels Limited, Sheraton Hotel and Nile Complex;
iii) Ministry of Information controlled *New Vision*;
iv) UTC and UPT were under the Ministry of Transport, Works and Communications;
v) Ministry of natural resources supervised Kilembe Mines; and
vi) Ministry of Trade and Industry controlled Foods and Beverages, Lake Victoria Bottling Co., Cable Corporation, Blenders U Limited, Uganda Meat Packers, Uganda General Merchandise Limited, Uganda Hardware Limited, Trans-Ocean U Limited, African Ceramics, TUMPECO, ATM, ULATI, NYTIL, Uganda Bags and Hessian Mills, Hima Cement Factory, Printpak U Limited, AEL, UGIL, UGMA Engineering Corporation and Uganda Tea Corporation.[34] In addition to the Ministry, J-Vs received further supervision from UDC.

The Auditor-General, or an auditor appointed by him was required to audit the accounts of SOEs, deliver to the Supervising Minister and the Finance Minister, who in turn was required to present these accounts before Cabinet not later than six months from the end of the financial year.[35] UDC subsidiaries received additional supervision.

UDC offered additional supervision for its J-Vs. There was an industrial division responsible for monitoring and providing management and other operational support services to subsidiaries. The division had five EDs to the 23 companies in the areas of agriculture and livestock, foods and beverages, textiles and leather; paper and chemicals, metallic and non-metallic and financial and real estate.[36] First, the responsibilities of the UDC executive directors gave them too much power to intervene in the daily management of subsidiaries. The overall monitoring of subsidiaries' operations by UDC was ineffective with many of their accounts not up-to-date, UDC's own accounts not prepared beyond 1988 while the consolidated UDC and subsidiaries' accounts had not been produced since 1973.[37] Neither the statutory SOEs nor the J-Vs strictly followed these regulations as has been shown. Unlike the other TCs that fell, advertising and enforcement costs increased instead after privatization.

#### 4.2.1.3. Advertising and Legal transactions costs before and after privatization

Unlike other transaction costs that reduced, advertising and legal average annual costs increased threefold from 0.2 b to 0.8 bn shillings explained by competition and high-legal costs in the private sector. In the trade and services sector, the bulk of the increase was attributed to Shell Oil Uganda Limited that accounted for over 63 % of post-privatization advertising and promotional costs. Three years after privatization, the MNC launched a three-year, aggressive, advertising and promotional campaign averaging Shs. 2.6 billion (US$1.3 m) annually. In total, Shell U Limited spent Shs.7.8 billion (US$3, 888, 035) between 1995 and 1997. To crown up her expansion, the MNC opened up several outlet petrol stations and also purchased PSOE, Agip U Limited Oil.[38]

The implication was that privatization was likely to increase advertising costs if competition was allowed in sectors that previously used to enjoy a monopoly situation. This situation would suggest a possible relationship between structure and corporate governance. This assertion, however, has the limitation of a lone case - only one PSOE (Shell Limited) stepped up her advertising costs.

Like advertisement, legal costs multiplied three times from 0.1 bn to 0.3 bn shillings after privatization due to bad loans created by SOEs and high, private legal costs. Before privatization, government contracted debt collectors to recover debts of statutory banks such as UCB and Co-operative Bank but not the J-V banks such as Barclays, Baroda or Stanchart that were left to handle their debts privately and hence the increased legal expenses. The move from public to private provision was partly responsible for higher legal costs. In addition, Ugandan lawyers charged ranging between US$ 150 to US$ 250 per hour that was considered high.[39]

Transaction costs may not fall with privatization in certain sectors that also deal credit industry such as banks, particularly if legal services were government-provided before, but changed to private provision with privatization. In this case, corporate governance's impact on privatization effects needs to consider the type of industry under consideration. This would suggest that high-legal costs for the banking sector may not end immediately after sale but continue being big after changeover from government to the private sector. In case they do, this has the wide-ranging implications for the whole economy in terms of bank closures and also cost of capital and, consequently, investment.

### 4.3. Summary

Investigating differences in corporate governance between public and private firms gives mixed results. Defined differently as objective setting, board functions and transaction costs depended on how the term was conceptualized. As objective setting, this study's results revealed an improvement in the statutory bodies objective-setting due to corporatization that separated commercial from non-commercial activities of the SOEs in preparation for their sale. The SOEs that were, therefore, sold had commercial objectives while the non-commercial objectives were shelved with the regulatory bodies. Among the non-statutory SOEs, such as J-Vs and 100%, however, there was no observed difference in objective-setting before and after privatization largely due to the remaining unsold 38 out of a total of 146 slated for sale as well as the partial privatizations. Second and as board operation, there was no change in terms of strategy explained by capacity problems, colonial history and political appointments that recruited inferior staff. Third, and last, as transaction costs, the results were mixed for the overall performance and individual votes. While there was no overall net change, the individual votes fell for communications, auditing and entertainment. The reduction in communication was explained by reduction in waste, competition and reduction in over-billing by the UP & TC while bankruptcy explained auditing. On the contrary, advertising and legal costs increased after privatization. These were explained by increased competition in the oil trading sub-sector that necessitated Shell to increase advertising but the increased legal charges were due to change from public to private provision of legal services in the banking sub-sector.

Summarising the impact of corporate governance on firm performance, can be argued that it was either negative as expected operating through board functions but nil when operating through transactions costs. Regarding the former, the winding up of UDC with consequent abandoning of SOE-maker role in early 1990s caused both insufficient investments and neglected sectors such as agro-processing, textiles and mining. On the other hand, despite individual changes recorded within transactions cost; there was no net change and therefore no change in firm performance. The implication was that with the exception of the rare case when SOE-maker (UDC) was also wound-up, the impact of corporate governance on firm performance was nil.

*Theoretical implications*

The theoretical implications are that while Galal *et al* (1995) argue that privatization's effectiveness depends on corporate governance, the findings of this study point to at least three possible ways in which corporate governance may influence privatization's effectiveness - which could be positive, with no effect at all or indeed negative as just elaborated on. First privatization may improve objective setting of some SOEs as well as reduce their transaction costs such as in communications and auditing leading to better firm performance. Privatization that follows corporatization may separate commercial from non-commercial activities of the SOEs in preparation for their sale can improve objective-setting. SOEs are therefore sold with commercial objectives while the non-commercial objectives were shelved with the regulatory bodies, suggesting that private sector was not necessarily better than public sector but just differed in objectives. Second, corporate governance may not record any change in firm performance due to a failure to strategize or monitor PSOEs especially where the state still maintained minority shareholding but still wielded controlling interest. This could be due to either general lack of capacity due to colonial past that might have discouraged training local businessmen in management sciences or just political appointments that could not sack their inferior kinsmen. In this scenario, there would be no difference between public and private sector but the solution would not be following a mixed economy but rather emphasizing private-sector discipline in recruitment and also training. Third and last, changes in corporate governance may impact on firm performance negatively after privatization due to a rise in advertising and legal costs depending on the nature of competition and industry under consideration. This suggests a possible relationship between structure and the nature of business that is privatized on the one hand and corporate governance on the other. To begin with, privatization was likely to increase advertising costs if competition was allowed in sectors that previously used to enjoy a monopoly situation. This assertion, however, has the limitation of depending on a lone case - only one PSOE (Shell Limited) stepped up its advertising costs. Transaction costs may not fall with privatization in certain sectors that also deal in the credit industry such as banks, particularly if legal services were government provided before but changed to private provision with privatization. In this case, corporate governance's impact on privatization effects needs to consider the type of industry under consideration. This would suggest that, for the banking sector, high legal costs may not end immediately after sale but continue being big after changeover from government to the private sector. In case, they do, this has wide-ranging implications for the whole economy in terms of bank closures, cost of capital and, consequently, investment.

# Chapter 5

## 5. Regulation, Privatization and Firm Performance

While two studies by Ddumba-Ssentamu (2001) and Uganda Manufacturers' Association (2000) existed on privatization on Uganda, none focused on regulation as variable influencing privatization results. This chapter aims at filling that knowledge gap by bringing regulation back in. Regulation, one of the six ways a government can intervene in the economy, is defined as Non Tariff Barriers (NTBs) and Tariff Barriers (TBs); licensing, minimum financial requirements (MFRs) and price controls. Firm performance was defined not only as profitability represented by ROS and ROCE but also innovations, investments, and product variety.

The theoretical basis is the Galal *et al* (1994) thesis that argued that in monopoly markets effectiveness of privatization on firm performance depends on how the private sector is regulated[115] implying an indirect impact. Bearing in mind that the private sector targets profits, it would harm the public if it was not controlled. Regulation was vital to guard against the excesses of the private sector, such as promotion of competition, to avoid turning a public concern into a private monopoly; for transforming former SOEs into private entities before sale; for connectivity and conflict resolution among various competing firms; and protection of consumer and producers.

The chapter has three parts. Section one is the post-privatization regulatory mechanism. It discusses the four regulatory mechanisms of NTB, licensing, minimum financial requirements (MFRs) and price control. The section also qualitatively attempts to investigate regulatory mechanism impact on firm performance; while three is the conclusion.

### *5. Regulation of Business in Uganda*

In 1992 and at the prodding of the World Bank and IMF (IFIs), the Ugandan economy underwent a major policy change from extreme control to de-regulation. De-regulation dismantled price controls on consumer and producer goods; private exporters were licensed and existing marketing boards liquidated; SOEs were privatized; managed floatation of the shilling against the US dollar was introduced; exchange control regulations were removed; and, national development planning was abandoned. Before 1992, the economy was characterised by consumer and producer price controls; both local and international trade was undertaken by state marketing boards; national development plans (NDPs) were the order of the day; there were strict exchange control regulations; and, the shilling was fixed to the US dollar.

In Uganda of the period, business was mostly regulated through tariff and non tariff barriers (TB & NTB), licensing, financial sector minimum requirements, and price controls in the energy sector. Although singly listed, these regulatory tools were mutually exclusive with dependencies existing among several of them, except only between minimum financial requirements and price control. Dependencies existed between:

- Licensing and tariff and non tariff barriers (TB & NTBs) for manufacturing firms;
- Licensing and minimum requirements for all financial institutions;
- Licensing and price controls in the energy sector. But for purposes of a detailed discussion, I focus on four individually.

### *5.1.1. Tariff (TBs) and Non Tariff Barriers (NTBs)*

NTBs to TBs regulation, after 1992, did not only create two groups of protected and unprotected but also generated contradicting international and regional tariffs on the one hand, and higher input than output tariffs on the other hand.

In 1992, Uganda de-regularized due to IMF and World Bank loan conditionality as well as sharp shortage of essential commodities at that time. Uganda Revenue Authority (URA) had been set up three months earlier by the URA Statute 6/1991 as a central body for the assessment and collection of specified tax revenue[116], to administer and enforce the laws relating to such revenue and to account for all the revenue to which those laws applied, advise the Government on matters of policy relating to all revenue, whether or not the revenue was specified in the statute.[117][118]

#### *5.1.1.1.2. From NTBs to TBs protection*

Despite de-regulation, some industrial groups such as BATU managed to lobby to maintain the cigarette imports ban justified by fact that BATU made significant contribution to national tax revenue, investment and employment. BATU, Uganda's second largest taxpayer after Shell, opposed government decision to lift the only remaining import ban on cigarettes in 1999 saying that this would increase smuggling and loss of government tax revenue. BATU also deplored the high incidence of taxes on cigarettes that were out of line with the size of the economy whereby Uganda had the third highest tax rates on cigarettes in Africa behind Ghana and Kenya, but the per capita income of the latter two doubled Uganda's.[119]

Despite the pleas government thought that farmers would benefit from competition as was the case in Kenya where farmers had stagnated to 7,000 tones till Mastermind emerged on the scene and tonnage rose to 15, 000 because of competition[120] creating more jobs, trade, and lower unit costs of production, prices and revenue for the treasury and showing that over-protection hurts efficiency.[121] As a result, another firm Mastermind was licensed to produce tobacco.[122] Cigarettes carried the only remaining import ban. All the other bans on car batteries, soda and beer were abolished in 1998 in conformity with WTO terms to which Uganda became a signatory.

With exception of BATU where the ban was maintained, government cunningly shifted from NTBs to TBs to protect firms in beer, soda and horticulture products. The conflicting objectives of World Bank for enhancing free trade conflicted with Uganda government for raising revenue and were best observed by the shift from NTBs to TBs.

In 1997, World Bank and IMF forced government to the lift the ban on beer, car batteries and soda imports. When implemented in April 1998, the measure was effectively just a change in name because of the built-in tax mechanism. The excise tariff for soda and beers and all imported sodas and waters, including mineral water and other sweetened and non-alcoholic beverages carried a flat excise tax of Shs. 230 per litre and with labels of production and expiry dates. The excise duty effectively brought [123] the cost of the beer bottle to above the price of the ordinary bottle of beer produced locally at Shs. 1, 200[124] and locked out imports. [125]

Concluding NTBs and TBs regulation, the tool produced mixed results. In beer, soda and tobacco sub-sectors, protection from imports was guaranteed. BATU Limited was effectively protected by the only remaining import ban on tobacco. Beer, soda and other beverages were protected by an excise-duty of TBs nature. Further, the shift from NTBs to TBs created further problems. While a ban was easier to set, TBs created problems of not only setting the right rate to counterbalance international and regional tariffs but also the synchronization of input and output tariffs. The protection, however, ended on these few industries and chaos reigned in the rest of PSOEs as their products battled with cheaper imports the worst being NYTIL and ULATI.

*5.1.1.1.3. The Unprotected*

TBs rate setting did not only prove difficult to get the right rate to counterbalance international and regional tariffs on the one hand and the synchronization of input and output tariffs on the other, but also indicated that protection of industries needed to go beyond just raising tax revenue and consider helping firms secure market control for a particular period as the examples in textiles and leather show. The contradicting regional vis-à-vis international tariffs on the one hand and higher input than output tariffs on the other hand caused smuggling and anti-export bias respectively.

*Contradicting international and regional tariffs*

There existed contradicting international and regional tariffs in the majority of industries, partly blamed for creating smuggling. With the exception of miscellaneous manufacturing whose regional tariffs exceeded international tariffs, the rest had higher international than regional tariffs. The commodities with contradicting tariff structures included fish processing, maize, sugar, leather, paints, plastic goods and tobacco with important impact on firm performance.[126][127] For instance, in 2004, KSW reported over 80,000 bags (4,000 tones) of unsold sugar after uncontrolled imports eroded the available small market after the authorities failed to curb smuggling.[128] As already pointed out, NTB regulation was not only dogged by contradicting regional vis-à-vis international tariffs but also by higher input than output tariffs.

*Higher inputs than outputs tariffs*

The shift from NTBs to TBs did not only generate higher inputs than output tariffs but also discouraged exports because Uganda’s manufactured exports relied on imported spare parts and raw materials. The ultimate burden of import taxation fell largely on exporters who were price takers and could not shift their higher costs onwards.[129] Consequently, the country's industrial products were produced for the local market and exported only 8% of their output. Using 1997 figures, the effect of imposing an extra tax on average increased costs by 4% ranging from below 1% for paper products and grain milling to as high as 26.7% for textiles.[130] Hence, protective tariffs hurt industries instead.[131]

*Closed Textiles and Garments; limping Leather Industries*

Initially, there existed three firms in the textiles and garments including NYTIL, ATM and UGIL. NYTIL used to produce plain dyed cloth, printed cloth, thick drill fabrics (Khaki) Corduroy and honeycomb and NYTIL used to meet the demand for school and army uniforms, bedding, curtain materials, ladies' garments and furniture making. There was negligible competition from local producers and the major competition was from imports especially synthetic and second-hand clothes. UGIL on the other hand used to command 70 % market share from the T-shirts, and new and used imported garments took the rest of the market. UGIL had the potential to export to the USA, Canada and Germany.

Uganda's textiles industry was not only uncompetitive internationally but also regionally. Internationally, production costs almost tripled the border price (DRC=299.1%) of imported textile materials, despite having the highest protection in the country of ERP 220% internationally and 99% regionally. Regionally, the Kenyan industries, with DRC of 166 above border prices, were better off. Siggel and Ssemwogerere (2002:27) explained the inefficiency due to exchange rate distortion (39.8%), high cost of capital (31.9%), energy cost distortions (12.8%) and protective import tariffs that also penalized industries (26.7%). Things worsened when government cut the tariff protection for textiles in 1997.

In 1997, import duties were cut from 30% to 20% in the budget while the surcharge dropped from 25% to 10%, depressing the effective rate of taxed (ETR) from 65% to 32% for NYTIL Picfare. NYTIL Picfare urged government to reverse the tax cuts and also introduce a minimum floor price concept similar to what was employed in other EAC countries to protect the textile industry. In addition, the Uganda Garments Association (UGA) also warned that the textile industry could be wiped out not only because of cheap, new, textiles from China, India and Pakistan but also stiff competition from cheap second-hand clothes from USA and Europe that cost between Shs. 2,000 (US$1) to Shs. 5,000 (US$2.5) per shirt or dress..[132] Neither the tax neither cut reversal nor was a minimum floor price put in place as suggested and NYTIL closed shop.

NYTIL Picfare closed and in its place two companies, Nyanza Range and ‘NYTIL Picfare’, operated in the former giant’s premises. ATM followed and UGIL went into receivership but was salvaged by the Uganda government that formed a fresh joint venture with Yamato International, a Japanese company under the new name of Phenix International. Interestingly, other new textile companies emerged with government financing after the fall of the traditional and old ones. The new companies included Tri-Star and Eladam International. While textiles closed, the leather limped on offering some clues not only on how firms could survive in the de-regulated environment but also issues to consider when setting the TBs rates.

ULATI in particular and leather in general faced similar conditions like those in the textile industry of enjoying a monopoly of processing hides and skins. The similarity, however, ended there and differences emerged over control of markets. Although Uganda leather industry was inefficient, it was regionally competitive (DRC=133) and better than Kenya counterparts at DRC of 200 (Siggel and Ssemwogerere, 2002). The implication was that the ULATI example showed that protection was required only to acquire a market.

ULATI, however, was less protected compared to the clothing and textiles industries. Leather ERP was 61% and 16% in the international and regional markets respectively. The sub-sector could do with more protection. For instance, ULATI’s response to the questionnaire argued thus:

> “The government needs to impose higher rate of duty say 60% on export of unprocessed leather as is being done in other countries such as Indian sub-continent, China and Ethiopia and also provide export rebate on exporting processed leather. This will create a level playing field for processed leather exporter vis-à-vis raw leather exporters. Extra benefits will encourage establishment of more leather processing units which will create employment and add value to local raw material of leather.”

ULATI were threatened with being pushed out of the market not only through importation of second-hand shoes explained by low tariffs[133] but also export of unprocessed leather. Only 20-25% of the products were consumed locally and majority exported in their low value unprocessed form. Although the leather industry in Uganda had the potential of exporting upper shoe, finished shoes and leather garments, bags and other high quality leather goods with a projected employment of about 10, 000 people, no efforts were made to ban export of semi and unprocessed leather as was the case in other African countries of Nigeria, Ethiopia, Sudan and Togo (NEST) with negative impact on leather goods industry. Many countries of Africa including Nigeria, Ethiopia, Sudan and Togo banned export of unprocessed products where infant industries existed to process them, while countries such as Senegal, Cameroon, Mali and Togo that allowed exploitation of unprocessed hides and skins closed their tanneries. In India and Pakistan, raw material export was banned for many years together with export of semi-processed and processed leather to boost the leather goods industry. Today, these countries feature as the major exporters of footwear and a wide range of leather products.[134]

Comparing textiles and leather that were not protected by NTBs offers interesting lessons for regulation. As already mentioned, while textiles closed when they were denied finance to acquire more modern technology to enable NYTIL compete, leather in general and ULATI in particular limped on. Surviving closure was explained by ability to export, comparative advantage of commodity that also implied efficiency and technology upgrading, and regional competitiveness. In short, TBs regulation needed to ensure that a firm managed to control a market although, in the long term, firms had to achieve international competitiveness through technology upgrading.

In summary, tracing the impact TBs and NTBs on firm performance gave mixed results on firm performance. For the protected category, justified for purposes of job creation, to allow investment, and also tax revenue contribution to the government treasury; NTBs improved firm performance in tobacco, beer, soda and other beverages. On the other hand, impact of firm performance arising from removal of protective tariffs in the rest after 1992, depended on whether a firm controlled a market or not. Firms that controlled neither a local market nor regional markets closed shop. On the contrary, firms that were regionally competitive such as ULATI limped on. In other words, the solution lay in ability to sell what a firm produced. In the next section, I discuss yet another regulatory tool - licensing.

*5.1.2. Licensing:* competition, connectivity *and conflict resolution*

Post-privatization licensing did not only emphasize competition, quality products and development but also utilized licensing and registration as methods of control. In the pharmaceuticals, several other methods existed. Licensing was an instrument of wide application in sectors such as FDI promotion, pharmaceuticals, transport, energy, banks and telecommunications. Unlike the other regulatory mechanisms, one interesting issue with licensing was the self-regulation in the transport sector.

The opportunity for self-regulation occurred when the assets of two government-owned bus companies, the Uganda Peoples Transport Company (UPTC) and the Uganda Transport Company (UTC) were sold to the public in a privatization drive. Consequently, the operation and regulation of road transport was also transferred to the private sector. At the time, the regulation of the taxi transport was in the hands of three rival bodies: the Uganda Taxi Operators and Drivers Association (UTODA), the Uganda National Association of Taxis and Taxi Operators (UNATTO), and the Taxi Owners Association (TOA), while the Uganda Bus Owners Association (UBOA) regulated the bus and lorry transport. These associations set the fares, general organization of the system, handled grievances between passengers and drivers and also ran the parks.[135]

*Competition*

While it is expected that privatization would usher in competition, with exception of only the Banking sub-sector that allowed entry and caused innovations such as ATMs, the rest of the sectors such as telecommunication and energy either continued with limited competition or monopoly positions respectively hurting efficiency.

Unlike before privatization, licensing in the telecommunications sector targeted enforcing fair competition and equality of treatment. As such, practices that prevented entry, restricted or distorted competition in communications such as mergers, collusion and dominance of a sub-sector by one player were prohibited.[136] Before privatization, the telecommunication sector was tightly controlled by the state for reasons of national security and UP&TC had a monopoly over the commercial postal and telecommunications services as well as regulation.[137]

Table 5 1 Structure of the Telecommunication Sub-Sector in Uganda in 2003

| Provider | Range of Services | Starting Year | Subscriber base |
|---|---|---|---|
| UTL (PSOE) | Fixed land line | 1997/1998 | 50, 000 landlines |
| | Mobile telephone | | 100, 000 mobile |
| | ISP (free access with UTL land line | | (24.6 %) |
| | Data transmission | | |
| MTN (U) | Fixed wireless | 1998 | 400, 000 mobiles |
| | Mobile wireless | | (65.6 %) |
| | ISP | | |
| | Data transmission | | |
| Celtel | Mobile wireless | 1995 | 60, 000 mobile (9.8 %) |

*Source*: UIA 2003:8, http://www.ugandainvest.com/callcent.pdf

On privatization in 1997, however, the giant UP & TC was split into a commercial and a regulatory body - the Uganda Communications Commissions (UCC).[138] The UCC was established to regulate and facilitate development of communication services in Uganda and license tele-communication services by issue of either a major or minor license. MTN and UTL were the only major licensed providers up to July 2005. Major licenses authorized providers to local and long-distance communications networks.[139][140]

Both utility regulatory bodies in the telecommunication and energy pledged to promote fair competition through licensing. For the former, owning, trading in and making communication apparatus or services required a license[141] except systems capable of only reception of broadcasts; state security agencies in performance of their duties and which case communications devices complied with technical requirements specified by the commission.[142] Similarly, conveyance, deliverance or distribution of postal articles needed a license except where the sender and receiver was the same person.[143]

Contrary to what UCC promised, the telecommunication sector was dominated by MTN (65.6%), although other providers such as CELTEL (9.8%), UTL (24.6%), and WARID existed in the mobile phone sub-sector (PSF, 2002:5; See Table 5.2). [144] Before licensing of WARID, MTN had promised to make it impossible for a third national operator. Although the limited competition aimed at attracting credible investors and allowing them recoup some of their investments, it hindered cost reduction and technological innovation such as VOIP despite higher flow of investment in the sector.[145],[146]

## Table 5.2 Licensing Impact on service delivery of Businesses after Privatization

| Regulator | Objectives of regulation | Process | Impact on firm performance |
|---|---|---|---|
| **FDI/UIA 1992** | Promoting FDI; Saving or generating new foreign exchange; Utilizing local materials; Creating employment opportunities for Ugandans; Contributing to locally or regionally balanced socio-economic development; Introducing advanced or upgrading of indigenous technologies[147]. | Written application showing details of the business, investor, & expected incentives submitted to UIA ED. Technology or expertise transfer agreements and must be registered with the UIA by the beneficiary immediately. Agreements spell out the purpose, contract terms, and prices, language of contract, rights and competition.[148] | FDI stagnated at US$150 m; between 2000/01 -2002/03<br>FDI barred from agricultural production except for provision of materials or other assistance to the farmer; leasing a piece of land for manufacturing and for ensuring a regular supply of raw materials with permission from the Finance Minister & UIA through a statutory instrument.[149]<br>UIA did not provide geological data, mineral targets that could be used, as a basis for attracting serious investors nor extension services, training and mining equipment support that investors needed. |
| **UPL/UDA** | Ensure quality & safety of drugs | Licensing of premises for pharmaceuticals and drug shops; inspection of operations and premises for manufacturers; drug assessment and registration; quality control and assurance; surveillance in the control of counterfeit or substandard or expired drugs; sensitization of the public and decentralization. | NDA officials mounted an operation and impounded several expired and fake drugs sold in drug in Eastern Uganda in 2004 |
| **Energy/ERA** | ERA targeted promoting fair competition, efficiency, economy and safety on the part of the licensees and efficient use of the electricity | Generation, transmission, or distribution of electricity for big stations exceeding 0.5 gegawatts, required a license[150] unlike small stations that just paid a fee.[151]Further, the operating license for generation made another payment to the district local government of operational area a royalty agreed upon by the licensee and the local authority; but in case of disagreement, ERA sets the royalty.[152] | UEB unbundling into a regulatory authority, and separate distribution, generation, and transmission companies had not altered the monopoly position and inefficiency that existed before privatization. Before privatization, UEB used incur 38% transmission and distribution losses, the second highest in Africa after Sierra Leone with 38.5%. |
| **Transport** UTODA, UNATTO, TOA, UBOA CAA | CAA targeted the promotion *safe, regular and efficient* air transport services in and outside Uganda; provision of *adequate, efficient and quality airport facilities and services* to the users; and broadening the revenue base. | The regulation of the taxi transport was in the hands of three rival bodies, namely, UTODA, UNATTO, and TOA, while the UBOA regulated the bus and lorry transport. These associations set the fares, general organization of the system, handled grievances between passengers and drivers and also ran the parks.[153] | |
| **Telecoms & postage**/UCC 1997 | development; enforcing fair competition and equality of treatment after privatization | Owning, trading in and making communication apparatus or services requires a license[154] except systems capable of only reception of broadcasts; state security agencies in performance of their duties and which case communications devices comply with UCC specified technical requirements.[155] Conveyance, deliverance or distribution of postal articles must be licensed except where the sender and receiver is the same person.[156] | 1) Mobile phones filled a market *niche* ignored by UP & TC due to lack of finance; 2) Limited competition blocked new cheaper modes of communications technologies like Voice over Internet Protocol (VoIP), a globally cheap form of telephone |
| **Banking/BOU** | Protect Depositors (Customers) | | competition caused innovations & new commodities to customers mostly from FDI Banks such as Stanbic, Barclays and DFCU |

Note: 1) FDI/UIA=Foreign Direct Investment/Uganda Investment Authority; UPL/UDA=Uganda Pharmaceuticals Limited/Uganda Drug Authority; ERA=Electricity regulatory authority; UTODA=Uganda Tax Operators and Drivers Association, UNATTO=Uganda National Taxi Transporters Organization, TOA= Taxi Operators Associations, UBOA=Uganda Bus Operators Association; UCC=Uganda Communication Commission; UNBS=Uganda National Bureau of Standards

Source: Various regulations

Liberalization of the telecommunication sector had attracted new financing and *Investment* by all players to provide essential services explained by underdevelopment[157] and the love for prepaid services, demonstrating the potential for wireless systems in the country. Although liberalization hurt certain domestic industries, it benefited the economy in the services sector fostering the growth of modern telecommunications that were lacking. For instance, UTL got a bank loan of $38.5m for its countrywide rollout of GSM (Mango) and CDMA (TelesaverPlus) network.[158] [159]CELTEL, a Dutch company operating mobile phones in thirteen African countries, invested US$50 million (Shs86.5b) in 2004 and US$400 million in both Uganda and the EAC region in general.[160] Lastly, MTN Africa sank US$750 million in the thirteen countries in Africa. Despite the fresh investments, limited competition hindered cheaper innovations.

But the limited competition in the telecommunication sector effectively made MTN and UTL stand in the way of new cheaper modes of communications technologies like Voice over Internet Protocol (VoIP), a globally cheap form of telephone. VoIP promised a stiff competition to the current expensive international phone call rates offered by MTN, UTL and CELTEL, since a VoIP call was as cheap as a local phone call.[161][162] Like UCC in telecommunications, ERA regulation in the energy sector was equally a failure.

For the later, generation, transmission, or distribution of electricity for big stations (exceeding 0.5 gegawatts), required a license;[163] small stations just required payment of a fee.[164]In addition to the operating license, the generation licensee paid to the district local government (DLG) in which the dam or reservoir was situated a royalty agreed upon by the licensee and the local authority; but in case of disagreement, ERA set the royalty.[165][166], [167]A distribution license, on the other hand, had to define the area of operation. ERA could delegate to a local government authority its powers to license distribution systems with annual sales below four gegawatts and this could be withdrawn if the bulk supplier failed.[168] Generally, the promised fairness in treatment to ensure competition was more on paper than actual.

During the brief period of ERA, none of the legal targeted goals of fair competition; was visible. The unbundling of UEB into a regulatory authority, and separate distribution, generation, and transmission companies had not altered the monopoly position and inefficiency that existed before privatization. After privatization, companies split from UEB maintained their monopoly position as before. Each of the three new companies formed out of UEB enjoyed a monopoly in its area of operation of generation (UEGCL), distribution (UEDCL) and transmission (UETCL). In addition, before privatization, UEB used to incur 38% transmission and distribution losses, the second highest in Africa after Sierra Leone with 38.5%.[169] These losses persisted although efforts existed to remedy the problem.[170] But unlike in telecommunication and energy where licensing failed to create enough competition, it was more successful in banking.

*Licensing competition in banking sector*

For a person to transact banking, credit institution, or building societies business, he or she needed a valid license. Eligible entities included companies incorporated and registered under the Company Act as well as the SOEs; a building society incorporated under the Building Society Act and any institution classified as a Financial Institution (FI) by Bank of Uganda on the basis of statutory instrument.[171]

The licensing of new banks, after privatization[172] caused a shift from government owned and joint venture banks to privately owned, foreign commercial bank industry. There were 19 banks and Stanbic Limited was leader in branch coverage and deposits but not necessarily in lending. The new commercial banking structure brought in some improvement. Before privatization, six banks together controlled over 80% of the banking deposit market as at the end of December 2001[173] (Bank of Baroda U Ltd. Prospectus, 2002:35). The sale of UCB to Stanbic caused Stanbic to take over leadership over both branch network and deposits in the sector.

The entry of new commercial, foreign owned banks introduced some competition in financial markets. Several FDI Banks introduced innovations such as ATMs and new products such as credit cards. Meridian Cards, a joint venture between Ugandan and Kenyan investors introduced a charge card similar to a credit card and several foreign exchange bureaus began to trade in foreign currencies.[174]

In summary, licensing to usher in competition was not only more successful in the service sector than industry but also attracted investments especially mobile phones that did not exist before in telecommunications although limiting entry here hindered cheaper innovations such as VOIP. Yet still, more success was scored in banking were ATM innovations were introduced. Next, I discuss yet another failed regulatory target-quality good. [175]

*Quality products*

Although licensing promised to ensure a quality product in pharmaceutical and air transport, neither NDA nor CAA lived to their vows explained by understaffing and undercapitalisation of the regulatory bodies. As explained before, most SOEs were both regulators and business operators. In the drug sector, the Uganda Pharmaceuticals Limited ($UP_hL$) was not different and ensured drug quality through provision and financing of $UP_hL$. With divestiture of $UP_hL$, government pulled out of provision and remained in regulation forming a new body - NDA. By the time of the research, all drug providers were private dealers.[176]

NDA ensured compliance through licensing of premises for pharmaceuticals and drug shops; inspection of operations and premises for manufacturers[177]; drug assessment and registration; quality control and assurance; surveillance in the control of counterfeit or substandard or expired drugs; sensitization of the public and decentralization. Licensing of premises for pharmacies and drug shops involves inspecting sites for suitability of location, size, structure, and fittings. A suitability certificate of premises preceded a license and was issued in the name of the registered pharmacist supervising the operations who had to be one of the directors if none of the other directors was a pharmacist. Import and export licenses for drugs were issued in the names of the pharmacists. The same procedure applied to "C" class drug shops that required just approved basic medical qualification and not necessarily a pharmacist.[178] Despite regulation and privatization, health was not effectively ensured and drug quality was problematic.

For instance, in 2004, the NDA officials mounted an operation and impounded several expired and fake drugs sold in drug in Eastern Uganda. In reaction, the NDA gave drug dealers four months to register or close shop. Fresh applications were submitted to the NDA and interviews held in 2005.[179]

Like in pharmaceutical, enforcement of a quality product air transport was equally problematic. After privatization, a separate body, the Civil Aviation Authority (CAA), was set up to regulate the commercial and non-commercial activities of aircraft operating in Ugandan airspace in 1994.[180] CAA targeted the promotion *safe, regular and efficient* air transport services in and outside Uganda; provision of *adequate, efficient and quality airport facilities and services* to the users; and broadening the revenue base by creating more revenue-generating activities.[181] Like NDA, CAA regulation promises ended up on paper only as evidenced by ENHAS example.

ENHAS monopoly resulted into overcharging of cargo at Entebbe Airport. Despite the need to make Uganda's exports, especially perishables like fish and flowers competitive in the global market, ENHAS made this impossible through prohibitive pricing. *The available figures showed that the shipping cost of flowers in Kenya was US$1.68 per kilogramme including documentation, local handling and refrigeration services but exporters at Entebbe had to pay US$1.90 per kilogramme without cold facilities and* *ground handling services*.[182]Hence, ENHAS charged a higher fee for an inferior service compared to Kenya. The failure of CAA to regulate air transport was explained by overloading it with activities whose objectives conflicted; an undefined debt burden and inadequate capitalization; large arrears owed by government and other SOEs; and negative impact of uneconomic and social projects that were never fully funded.[183]

Before privatization, regulation of air transport was in the hands of the UAC that also operated air services. Private regulation of road transport performed better than public regulation of air transport that air regulation could benefit substantially from self-regulation to create efficiency, and eliminate the financial and staffing problems that characterized public regulation. There were strong beliefs among citizens and operators that self-regulation would succeed were public had failed. While it was expected that competition would take care of the problem, it could actually escalate it especially when shortage existed side by side with corrupt regulators as the cement example indicates.

Two cement making factories existed in the Uganda - Tororo Cement Works and Hima Cement- both producing ordinary Portland cement based on British standard 12. Hima produced cement from local raw materials but Tororo imported 150, 000 tonnes of clinker annually, mixed it with gypsum and re-bagged it. Clinker was 95% Portland cement[184] making Tororo Pozzaland Cement cheaper but not suitable for permanent tall buildings.[185]

In 2004, Police investigated Tororo Cement Limited (TCL) for alleged manufacture and supply of bogus cement. The investigation was sparked off by the collapse of several buildings under construction in and around Kampala and loss of lives. The accidents were simply dismissed as mere construction site incidents on one hand, but blamed on poor workmanship and the materials being used on the other by UNBS. In order to clear their image, the Uganda Institute of Professional Engineers (UIPE) sought to have a sample of the cement sent for testing in Kenya and South Africa. The Uganda National Bureau of Standards (UNBS) came up with two contradictory reports. The first cleared the TCL in a November 2004 but the UIPE insisted on the truth and wanted people involved in the manufacture of the fake cement prosecuted. Ten days later, the second UNBS report acknowledged the substandard nature and unacceptability of the cement was of a 2-day[186] compressive strength of value 8.5 MPa against a standard of 10 MPa, and did not conform to the standard of US310-1: 2001.[187] Quality problems were also partly due to high demand for cement in Uganda arising out of a construction boom. [188]

Summarizing on licensing with view of ensuring a product quality revealed probably the worst failure ever experienced in ensuring quality caused by partly politics in case of ENHAS and corruption in case of UNBS concerning the sub-standard cement.

*Development*

For many years the World Bank and IMF sold the idea to third world governments that total privatization of parastatals and liberalization of the economy was the magical answer to under-development. Armed with this belief, governments chose to privatize public companies[189] and also withdrew from doing business and put in place policies that gave the private sector wider roles.[190] In Uganda, government wound up UDC in the early stages of the privatization process (1990s), citing corruption and inefficiency as the reasons.[191] Established in 1952 by Governor Sir Andrew Cohen to oversee industrial development in sectors where government could not directly intervene prior to privatization, UDC was a special purpose vehicle supposed to cause investment in areas individuals or government could not. Almost all countries in the world have such development corporations.[192],[193], [194] Government then embraced the much-touted `private sector-driven growth' policy by opening Uganda Investment Authority (UIA) to cause private sector development as opposed from UDC that promoted state-led development.

Established in 1992, UIA targeted to champion private sector-led development as opposed to state-led development that used to exist. In other words, UIA replaced UDC with hope of a more successful private sector-led growth and had several objectives including but not limited to:

- Promoting Foreign Direct Investment (FDI);
- Saving or generating new foreign exchange through ISI or exports;
- Utilizing local materials, supplies, and services;
- Creating employment opportunities for Ugandans;
- Contributing to locally or regionally balanced socio-economic development;
- Introducing advanced technology or upgrading of indigenous technologies.[195]

These objectives, among others, were to be achieved through licensing of investors and registration of technology transfer.

The Executive Director of the UIA was charged with the responsibility of receiving the applications for an investment license and the registration of foreign technology expertise in Uganda. A foreign investor needed an investment license before commencement of business. The was made in writing addressed to the UIA Executive Director showing details of the business and of the investor, as well as any expected incentives. Similarly, transfers of technology or expertise were regulated through agreements and must be registered with the UIA by the beneficiary immediately for validity. There were several conditions, all of which could be exempt, to accompany the agreements including the purpose, end of contract terms, prices following changes in agreement, language of contract, rights and competition.[196] Despite the regulation, the Investment Code failed in most of its objectives such as FDI promotion and government wanted policy reversal for active state intervention again.

Compared to other LDCs like Angola and Sudan, Uganda received less FDI and stagnated at US$150m before the oil-investments started flowing in after 2007.[197] This poor performance was explained by poor policy formulation, insufficient investment, export bottlenecks and ignored sectors by the private sector-led growth.

The careless policy-making was visible in the agricultural and mining sub-sectors. Despite agriculture contributing 40% to GDP in 2003, the Code discouraged FDI investing in the sector. Foreign investors were refused to engage in agricultural production except for provision of materials or other assistance to the farmer; leasing a piece of land for manufacturing and for ensuring a regular supply of raw materials with permission from the Finance Minister with recommendation from the UIA through a statutory instrument.[198] In the mining sector, despite a big mineral potential, UIA neither provided investors important investments information like geological data and mineral targets that could be used, as a basis for attracting serious investors nor extension services, training and mining equipment. Impact was that although 206 companies were licensed to carry out prospecting, acquire mining lease and mineral dealers' license, there was little on the ground and the sector recorded zero cumulative investment up to 1998/9[199] Interestingly, however, government blamed private ownership policy and not her weaknesses for the aborted of private sector-led growth.

In 2006, government admitted that it erred in winding up UDC and a new agency was planned to champion investment in strategic sectors. Government intended to play a major role in the economy again explained by the need to have as many industries as possible to reduce unemployment. There were several areas like the **mining and textile sectors** where if the private sector was left on its own, it would not create enough investments to foster industrialization- a combination of the private and public sector was necessary.[200]

The weaknesses came to the fore especially when implementing AGOA, whose benefits were negligible. It had been realized that for Uganda to reap maximum benefit from the access to the American market there was urgent need for investment in agro-processing and textile industries. Under AGOA, Uganda exported textiles to America but new markets had also emerged especially in the Middle East for fish, beef, mutton and other animal products which called for heavy investment in processing facilities. Uganda enjoyed negligible benefits under AGOA blamed on absence of structures to mobilize farmers and yet FDI was barred from agriculture. Ugandan agriculture sector was fraught with subsistence farming methods that could not produce in quantities of export viability. If the co-operative movement existed, it would have been much easier to communicate to the farmers about the available opportunities and production would have been instigated.[201]

Second, the policies had not entirely been fruitful because the private sector had not picked interest in investing in the agro-processing sector, a crucial sector to development. Both local and FDIs had ignored certain sectors after liberalization policy were established. There were priority sectors to the economy which private investors ignored despite the good policies. Given that agriculture was the backbone of the country, interventions to industrialize it promised to yield enormous benefits to the economy."[202]

In summarizing, licensing to usher in private-sector led development revealed that the policy failed not only to master enough to cause growth but also ignored vital sectors such as agro-processing, textiles and mining critical for development. As such a policy reversal was planned. For the private sector to bring about development there was need not only to allow FDI in agriculture through amending the investment code but also provide geological data and mineral targets, extension services, training and mining equipment.

*Missing regulatory targets: Connectivity and conflict resolution*

One omission after de-regulation licensing was the absence of mechanisms for inter-connectivity as well as conflict resolution mechanisms evidenced by accusations of CELTEL of charging MTN for uncompleted calls in the telecommunication sub-sector on the one hand, and conflict resolution mechanisms that characterised private sector competition as shown by quarrels in the soda sub-sector. While the former connectivity issues were known by UTL management and auditors and the latter's by police, there were no industrial organisation avenues to address these issues, as I elaborate immediately.

*Interconnectivity*

In 1995, MTN accused CELTEL of charging MTN for uncompleted calls and abetting mobile phones thefts because CELTEL had not installed the Equipment Identity Register (EIR). CELTEL counter-reacted with a press conference and denied the MTN accusations arguing that it charged MTN for calls going to its network just as MTN charged her and that the public did not know the complex interconnections and agreements.[203]

UTL management, however, confirmed that CELTEL lacked the EIR machine and maintained that the tariff rates of local traffic between UTL and CELTEL were neither registered nor recorded. This included calls originating or terminating in UTL's network as well as the international traffic originating from abroad and terminating in CELTEL's network through the UTL switch. This meant that with exception of international traffic originating from CELTEL network, UTL could only rely on CELTEL's traffic declarations in determining the balance to be invoiced. UTL's view was supported by other authorities. An independent group of auditors supported UTL's view that they could not confirm the accuracy of the entire CELTEL traffic declaration because of the inability of UTL's system to capture or record part of the traffic. In summary, UCC needed to put in place not only connectivity issues such as installing an EIR machine before licensing any major provider but also conflict resolution avenues such as those between UTL/CELTEL, MTN/CELTEL, and UTL/Starcom.

*Conflict resolution*

Conflicts did not only exist in the telecommunication but also in the soda sub-sector. First, the auditors revealed that UTL had a money dispute of Shs. 141 m (over US$75, 000) with STARCOM that was licensed in 1995 to offer e-mail and pay phone services in Uganda. STARCOM disputed the balance and accused UTL of allowing the public to misuse their pay-phone booths with the full knowledge of UTL officials.[204]

Second, in order to survive in this competitive industry, Pepsi-Cola launched an advertising campaign in the press and by setting up a minimum of 30 soda kiosks in strategic places of population concentration in the City near the Nakivubo Stadium, Main Taxi Parks, City Square and in other major towns of Jinja, Masaka and Mbarara.[205] The rival soft drink producer reacted cunningly. A series of accusations and counter-accusations were exchanged between Century Bottling and Lake Victoria Bottling Company (LVBC). Century Bottlers for over a month had been accusing their rival Pepsi-Cola for sabotaging their business by hoarding Coke bottles and shells. The verbal war climaxed when Police stormed the Nakawa Pepsi plant and found the 250 crates of Coca-Cola empties from a rival company Century Bottlers and three of Schweppes from Kampala Bottlers hidden in a huge store although more Coke bottles might have been deliberately destroyed before mounting the surprise search.[206] [207]

The situation of conflict resolution was in a state whereby regulators such as UCC just ignored or when some response existed was handled by the wrong entity, such as police in the Century/LVBC on one hand; and the TCL/Hima Cement conflicts on the other hand. As such, there was need for UCC to incorporate conflict resolution agenda in their objectives.

In summarizing, licensing impact on firm performance did not only display negligible gains but also revealed several weaknesses in the tool. The marginal gains included innovations in the banking sector such as installation of ATMs and computer-networked branches as well as introduction of mobile phones that were lacking and new investments in the telecommunication sector - although the limited control in the latter hindered cost cutting innovations such as VOIP. The rest of the licensing failed to deliver competition, product quality, and development explained by monopoly position in former UEB companies, politics in ENHAS, corruption in UNBS and ignored sectors and insufficient investments in development. Most regulatory bodies lacked connectivity and conflict resolution mechanism on their agenda. All this failure at regulation was explained by inadequate financing and staffing of the regulatory bodies. Before separation of commercial from non-commercial activities, the former used to finance and supply experienced staff to the latter, but after privatization, this was no longer possible.[208]

### *5.1.3. Minimum Financial Requirements (MFRs)*

Analysis of regulation in financial sector does not only indicate the relative better success of licensing over MFRs but also show that intra-MFR comparisons gave mixed results. Comparing licensing and MFR impact on firm performance in banking sector showed the former more successful than MFRs due to increased competition that caused innovations such as ATMs and credit cards. On the other hand, intra-MFRs comparisons showed that while MCR strictly improved bank performance as a result of limited entry, CRR impact depended on whether a bank was a price maker or taker.

**Table 5. 3 MFRs in Financial Sector in Uganda after Privatization**

| Regulation Tool | Policy |
|---|---|
| Cash Reserve Ratio (CRR) | 10% of all demand deposits & 9% of time deposits to be placed with Bank of Uganda. |
| Minimum Capital Requirement (MCR) | Minimum capital requirement is Shs. 2 billion from 1st January 2001 & 4 billion from 1st January 2003. |
| Capital Adequacy Ratio (CAR) | Core Capital=8% of Risk Adjusted Assets plus Risk Adjusted Off Balance Sheet items; and<br>Total Capital= 12% of Risk Adjusted Assets plus Risk Adjusted Off Balance Sheet items. |
| Lending Limits | Maximum amount of credit exposure to any one borrower and maximum amount of aggregate credit exposure to insiders limited to 25% of core capital. |
| Maximum Liquidity Requirements (MLR) | Liquid assets must be at least 20% of demand deposits plus 15% of time deposits. |
| Foreign Exchange Exposure Limit (FEEL) | 25% of core capital |

*Note:* MFRs=minimum financial requirements

Source*:* Bank of Baroda (U) Limited Prospectus, 2002:35

Although licensing played a major role as already explained, the main tool of regulation in the financial sub-sector was MFRs. Specifically, FIs were required to maintain 10% cash reserve ratio (CRR), Shs.2 billion (over US$ 1 m) minimum capital requirement (MCR), 8% capital adequacy ratios (CAR), lending limit to any single borrower was 25 %, 20% demand and 15% time deposits of minimum liquidity (MLR), 25% each to lending and foreign exchange exposure limits (FEEL) according to the Financial Institutions Statute 1993 (See Table 5.3).

Regulation was needed in either the utility or other sectors that had strong externalities to other sectors, including but not limited to railway, banks and energy to promote development. Regulation hence was particularly important because the financial sub-sector was a vital source of finance for development and greatly influenced the real sector. Hence, the sector products were important input in production of other goods. Unfortunately, however, the MFR measures were put in place to ensure depositors' security as opposed to the much-needed competition and lower rates of interest.

*5.1.3.1. MFRs Effectiveness*

MFRs had three effects of running down banks, limiting entry particularly in micro finance, and maintaining high lending rates. Although the law was meant to ensure bank solvency and safeguard customers' deposits, it actually set in instability and reduced the number of banks.[209] For instance, Trust Africa closed September 1998; Co-operative Bank in May 1999; Greenland Bank April 1999; International Credit Bank (ICB) in September 1999; and Trust Bank went in November 1999.

The MCR requirements complicated things for new entrants, partly contributing to the high interest rates. The media expressed the effect of minimum requirements on competition thus:

> "Members of the Parliamentary Committee on Finance expressed dismay at the high minimum capital in order for micro-finance institution to do business. The Parliamentarians argued that the Shs.700 million (US$350, 000) was too high for most local micro-finance institutions whose members were mostly from the rural areas. It was argued that there were interest groups in the micro-finance sector that were interested in maintaining that high entry capital requirement **to shut out competition** from the new ventures into the sector. It was agreed that a clarification be made on the basis of arriving at this figure on which recommendations would be made to encourage competition in the sector.[210]"

The high CRR affected the rate of interest charged by commercial banks because a big portion of their assets did not earn income at the Central Bank. In order to compensate for that loss, they were forced to increase lending margins. Modern countries were moving from CRR to LRR that included interest-earning Treasury Bills and listed Government bonds. Low CRR countries included Botswana at 3.25% and South Africa at 2.5% that also had fair interest rates. Businessmen complained that CRR of 10% of total deposits was very high and inconsistent with modern trends and suggested lowering it to levels consistent with low-interest countries such as 3.5% in a bid to lower lending rates. Interest rates were quite high and very few private sector companies realized a rate of return of 25 % to justify borrowing from Uganda's commercial sector.[211] Ugandan banks charged higher interest rates than banks in several developed countries and needed to copy their counterparts in the developed world that charged low interest rates. In the US, interest rates were at 3%, in UK 4%, India and China 5%. These were far less than African rates of between 25% and 30%.[212] High CRR did not only negatively impact on bank profitability but also economy-wide spreading to other sectors through high interest rates discouraging investments and growth.

Uganda stood alone in the EAC region with the staggering interest rate ranging between 21 and 25 per cent compared to Kenya's between 12 and 16 per cent and Rwanda at 16 and 18 per cent respectively. In response and to display poor policy analysis, instead of reducing CRR or replacing CRR with LRR, the Central Bank Governor said the solution to the astounding interest rates lay in allowing more players into the financial sector and installing of Credit Reference Bureau (CRB) to improve risk management and enforce the repayment culture.[213] Despite being the world's most entrepreneurial country, it lacked a cheap credit, thus dampening growth rates. Without easy credit, most entrepreneurs started with savings and built their businesses with retained earnings till they got to 50 or 100 employees when they needed the bank support. Comparatively, Kenya performed better in providing financing to the small and growing businesses.[214,215]

In summarizing on MFRs, although initial reactions were bank closures in 1999, later impact depended more on MCR and CRR among other factors. While MCR limited entry ensured, maintained or improved bank performance; CRR impact depended more on structure: whether a bank was a price-taker or maker. While price-takers deteriorated in performance, price-makers improved explained by passing on the higher interest rates to borrowers. Poor performance was explained by poor policy analysis. Like for MFRs, regulation was needed in either the utility or other sectors that had strong externalities to other economic sectors, such as infrastructure, railway, banks and energy through price control.

### *5.1.4. Price Control: Consumer Protection & Development*

Theory on whether prices and profits of utility companies as well as intermediate industries should be controlled or not contradicted. On one hand, and basing on export and competitiveness purposes, it was seen as prudent to control utility prices. On the other hand, however, and basing on investment argument, it was seen as wrong to control these prices. First, it was argued that cheap utility and other intermediate industrial prices such as transport was important for movement of materials from one country to another. But cheap transport also means *good roads*, preferably *paid for by the state,* and *cheap fuel* to create enthusiasm for profit in international trade. For the majority of businesses in the world, the state paid much of the costs to enable lucrative trans-national trade. Cheap transport was necessary because it was more profitable to manufacture goods in LDCs where wages were low than in DCs where workers enjoy higher wages and standards of living. In return, the people in LDCs did not afford to buy expensive manufactured goods and so the finished goods had to be transported back to markets in high-income countries.[216] Second and in the contrast, it was argued that political pressure for low prices could have different consequences depending on what type of public enterprise that was privatized. Some public (utilities), for instance water and sanitation in cities, tend to suffer from under-investment because there is strong political pressure to keep prices low with serious consequences for public health. This could be seen as a justification to privatize, provided that it was easier to raise prices in a privatized enterprise, thus generating higher profits and larger investment funds. This was the case with UP & TC companies such as UTL. Privatization was welcome in an attempt to solve lack of investment in UP & TC. As such, the criterion of success should not be low prices or profits after privatization, but also the level of investment after privatization. It is interesting to note that ERA position on regulation shifted from export to investment positions since privatization as I show immediately.

As indicated before, ERA promised to enforce compliance with the conditions set in the license and was supposed to protect the interest of the consumers in terms of the prices, charges and other terms of supply of electricity.[217] What transpired later was that ERA ignored protecting the consumer and concentrated on electricity producers' protection as shown by price increases since privatization.

Before privatization, domestic tariffs were charged in phases whereby the first 30 kWh were charged at Shs.20 per kWh; the next 170kWh at Shs. 70 per kWh; and all units over 200kWh were at Shs.100 per kWh. Immediately, after unbundling of UEB, power rates increased to Shs.50 for the first 30 kWh and to Shs.186.8 per kWh for all units above 30 kWh.[218] But this was not all. The UEDCL applied to ERA seeking authority to hike the power rate by 15% for domestic consumers which Parliament resisted. In 2002, Parliament, in vain, passed a resolution to reduce power rates from Shs. 170 to Shs. 150 per unit that UEDCL ignored. UEDCL argued that during 2003, it spent Shs. 114 m (over US$57, 000) on additional works under the urban power project at Masindi Port that required recovery from 2004 rates.[219] Battles were fought between the Minister for Energy, ERA, Parliament, and the Presidency. The Energy Minister ordered ERA to cancel the power hikes; Parliament also passed a resolution to stop the hikes that was ignored. Lastly, Parliament threatened to censure the Energy Minister, Syda Bbumba, for failing to control ERA and UEDCL. In spite of the battles, power rates were hiked through removal of domestic consumer subsidy not only enhancing UEDCL performance but also hurting regional competitiveness since energy in other EAC countries was cheaper.[220] [221]

The current rates for power increased for domestic consumers ranged from Shs 170.1 to 171.4 per unit but reduced for industrial users, from Shs 170.1 to Shs 164.8 for small enterprises to Shs. 37.7 a unit for extra large industrial firms after privatization[222] shifting power costs burden from the industrial users to the domestic consumers. One reaction against power tariff hikes was formation of a consumers' association to monitor the power on behalf of consumers in Kampala in 2007.[223]

Rates of energy in Uganda at over US$ 23 cents per unit exceeded her EAC member countries such as Kenya's US $19 and Tanzania's US$9. Although Uganda explained the high rates as due to thermal, this was not plausible since Kenya produced over 300 MW and Tanzania 70 MW of their electricity from thermal respectively compared to Uganda's current 100 MW thermal yet their rates were lower.[224] Rates were not only high in energy but also in telecommunications and air transport.

*Missing price controls: telephone tariffs rates and Airport Handling*

Analysis of telecommunication tariffs also presented in Table 5.4 did not only indicate that mobile phones were higher than landline rates but also that with the exception of international calls, UTL was cheaper than the new entrants - MTN and CELTEL. As expected, rates were higher at peak than super-economy periods.

Comparatively, telephone costs in Uganda were higher than Kenya, Mauritius and South Africa, making Uganda a high-cost country. Part of the effort was therefore to bring the costs in line with at least that of South Africa - the best on the continent - initially and with the rest of the World in the long run (USAID, 1995).

**Table 5. 4 Telephone Rates in Uganda in Shs. per minute in 2004**

| Provider/Direction | Super Economy | Economy | Peak |
|---|---|---|---|
| UTL Landline | 180 | 250 | 280 |
| Mango (Telecel) | 180 | 280 | 340 |
| MTN | 360 | 360 | 420 |
| Celtel | 360 | 360 | 430 |
| Calls to EAC | 1000 | 1000 | 1000 |

*Source*: http://www.utl.co.ug/mobile/prepaid_tariffs.htm

Higher mobile tariffs were explained by taxation in the telecommunications sector, especially excise duty. For every Shs100 charged, Shs. 28 went to government, divided into 18 VAT and 10-excise duty.[225] In two years, tax on airtime doubled from 5 % in 2002 to 10% 2004, reducing operators' profits and re-investment because they strive to avoid transferring the tax to customers.[226] Comparatively, Uganda had the highest mobile phone tax rates in East Africa. Kenya's rate was at 10 %, Tanzania's 7 %, while Rwanda was promising to introduce the duty. This meant that Ugandans paid between 25-30 % taxes more compared with Africa's 17 % average limiting mobile phone use to 9 % penetration[227] and widening the rural-urban divide since most users were urban.[228]

In the air transport sector, the ENHAS example already cited helps illustrate overcharging that required some form of policing. [229] ENHAS charged a higher fee for an inferior service compared to Kenya.

### *5.2. Summary*

The chapter aimed at investigating the impact of regulation on firm performance. The chapter did not only reviewed the post-privatization regulation defined as NTBs and TBs, licensing, minimum financial requirements (MFRs) and price controls but also tested these tools impact on firm performance defined as profitability (ROS and ROCE).

The results revealed that the various regulatory tools impact on firm performance was mixed. First, impact TBs and NTBs on firm performance gave mixed results. For the protected category, justified for purposes of job creation, to allow investment, and also tax revenue contribution to the government treasury; NTBs improved firm performance explained by protected local markets. On the other hand, impact of firm performance arising from removal of protective tariffs in the rest after 1992, depended on whether a firm could control a market or not. Firms that controlled neither a local market nor regional markets closed shop. While the firms that were regionally competitive such as ULATI limped on.  Second, licensing impact on firm performance did not only display negligible gains but also revealed several weaknesses in the tool. The marginal gains included innovations in the banking sector such as installation of ATMs and computer- networked branches, introduction of mobile phones that were lacking and new investments in the telecommunication sector although the limited control in the latter hindered cost-cutting innovations such as VOIP. The rest of the licensing failed to deliver competition, product quality, and development explained by monopoly position in former UEB companies, politics in ENHAS, corruption in UNBS and ignored sectors and insufficient investments in development. Generally, regulators lacked an agenda for connectivity and conflict resolution mechanism and needed to install such objectives.  Third, while MCR-limited entry ensured improved bank performance; CRR impact depended more on structure: whether a bank was a price-taker or maker. While price-takers deteriorated in performance, price-makers improved explained by passing on the higher interest rates to borrowers. Lastly, price control policy ignored the consumer and protected the producer tended to improve firm performance in the energy sector but economy-wide impact was less clear since tariff increases favoured industries than domestic consumers.

*Theoretical Implications*

While Galal *et al* (1994) argue that in order for privatization to be effective it depends on how the private sector is regulated; Ugandan evidence seemed to suggest that this is true only for manufacturing industry and not all enterprises. While regulation was important in influencing firm performance in manufacturing as a result of opening up, it was not the case for service sector whereby, in order to come with better performance, competition was allowed.

In manufacturing industry, selective protection in names of NTBs/TBs effectively influenced firms in a mixed manner. Firms in tobacco, beer and other beverage industries that were protected by NTBs/TBs in order to encourage new investments, employment and because of their tax contribution to the government treasury managed to improve their performance to the extent of even breaking into exporting to regional markets. In the rest of industries where selective protection did not take place, however, the performance of these firms depended more or less whether a firm controlled a market or not. This was because opening up also meant surrendering the local market to cheaper imports. Firms that used to thrive on local markets such as NYTIL closed shop while those that managed to break into regional markets limped on. Hence NTB/TBs regulation effectively influenced firm performance in manufacturing. This was not the case in services.

In the service sector, it took up opening up (more than just regulation) to bring results in both banking and telecommunications. In these sectors, allowing in new players did not only lead to innovations such as introduction of ATMs and computer-networked branches in banking but also caused a variety of products to be produced such as mobile phones that were lacking in the country and also brought fresh investments in the telecommunication sector that was under-funded. This also meant that for meaningful results in the services sectors that were under-funded, effectiveness after privatization was more successful if competition was allowed than mere regulation as opposed to manufacturing.

# Chapter 6

## 6. Privatization and Motivation

In chapter one, Galal *et al* (1994) argued that the effectiveness of privatization depends on how the public sector is motivated. If motivation in SOEs was same as in PSOEs, privatization would be expected to have no effect; while if they differed some results whether positive or negative would be expected. This was because Madsen (1988) argues that work conditions are worse in PSOEs than SOEs because the latter used trade unions to fix unrealistic work conditions before privatization. In this chapter, I measured motivation by wages, fringe benefits and job security. The chapter has three sections. Part one is on wages and salaries; part two covers fringe benefits and part three the job security all before and after privatization. This was because work conditions were likely to be worse in PSOEs than SOEs.

Motivation is having the desire and willingness to do something. It can be temporal or dynamic A motivated person can have a short-term goal like learning how to spell a particular word or reaching for a long-term career goal such as becoming a computer specialist. The subject has been better discussed by Hertzberg's Motivator Hygiene Theory which explains satisfaction and motivation in the workplace arguing that satisfaction or dissatisfaction are driven by different factors – motivation and hygiene factors respectively.

Hertzberg (1968) argues that motivators include challenging work, recognition, responsibility which gives positive satisfaction, while hygiene factors include salary, fringe benefits **and** job security which do not motivate if present, but if absent will result in de-motivation. The term hygiene factor is used because, like hygiene, the presence will not make you healthier, but absence can cause health deterioration. Steve Bicknell's[230] empirical evidence supports the motivator-hygiene theory. Research into employee engagement data analysis of over 50 companies found a relationship between low hygiene and low employee engagement. Employees consistently recorded low scores against management/leadership but happy to complain about leadership since their hygiene factors were bad. This study defines motivation being of the hygiene nature and ignores the motivator type.

Most employee surveys always give a fair reflection regarding what motivates them, or what provides job satisfaction, pay, or salary: salary is always down on the list, with people being much more concerned about work conditions, challenges, and other soft factors. If salary were denied, however, most people would not go to work just because of the challenges - suggesting that, money, pay, or salary was important. If this was not the case, people would all work for the fun of it. The relationship of pay to performance and work motivation was complex and varied depending on: the financial situation of the individual employee; the individual employee’s values; the employee's perception of whether pay (or pay increases) is (are) fair; other working conditions in the company; and the perceptions of people in the industry sector. The conclusion was that salary and pay are important in the motivational mix, and thus should not be ignored but an increase in salary does not necessarily increase productivity of an employee, although a reduction of salary may result in bad feelings and lower effort (Bacal Robert, 2000 – 2006)[231].

### *6.1. Salary and Wages in the Public (SOEs) and Privatized Sectors (PSOEs)*

Before privatization, SOEs, unlike their FDI counterparts, were lavish in dishing out salaries. Determination of workers’ salaries and wages and other conditions, particularly for the fully SOEs, was based on factors other than production or profitability. On the contrary, the workers’ conditions in enterprises that had some degree of FDIs or where government held minority shares tended to be free of labour restrictions generally. During this era, wage determination was political but also depended on whether the SOE was FDI or purely government.

**FDI**

On the contrary, the workers’ conditions in enterprises that had some degree of FDIs or where government held minority shares tended to be free of labour restrictions generally. The sugar and the tea factories suffice to illustrate the differences in motivation in FDI firms and the purely SOEs. Firms with some element of foreign ownership tended to ignore the idea of collective agreement and fluffed the trade unions and their restrictive working practices. Bad conditions in FDI firms always resulted into strikes with varying intensities. In the big enterprises, the workers used to react through strikes and other violent actions that also differed in industry type. In the Tea and the Sugar plantations, the workers destroyed the crop, while in the textiles industry, they harassed the management and the strikes were less violent.

Determination of workers' salaries and wages and other conditions, particularly for the fully SOEs, was based on factors other than production or profitability. For instance, a UCB regulation stated that 't*he salary, wages, fees, or other remuneration or allowances paid by the Bank were in no way to be computed with reference to the net or other profits of the Bank'* [22/1965, s.11 (3)]. This implied that even if losses were made, salaries and benefits would continue rising but in case of profits there would be no bonus for the workers, thereby de-linking pay from productivity explained by state ownership and TU influence. Unlike fully government SOEs, FDI firms' salaries and conditions of work were based on production and profitability.

### 6.1.1. Unionization in Public Sector

In 1990 just before privatization, SOEs exceeded the non-SOEs trade union membership; but this was reversed after privatization. Trade union membership was 67,000 and 34,500 for SOEs and non-SOEs respectively before privatization in 1990. After privatization, the corresponding figures were 75,359 and 92,135 respectively (see Table 6.1). Being a union member meant to have a membership card, being up-to-date with the monthly contributions[232] and having an ideology. A member was baptized and initiated. While the former turned a member into either 'a brother' or 'sister'; the latter, took a worker through training in ideology and work values. Employment was not taken as a favour but a right or an entitlement.[233] Before privatization, SOE trade unions comprised a small majority of total union membership.

Specifically, there were 67,000 employees in 1990 accounting for 66 per cent of total union membership and 0.6 per cent of the 1992 national census respectively. Unions covering SOE staff accounted for more than half of all unions in the country. Specifically, there were eight unions catering for SOE staff out of a total of 17 unions in the country. This unionization was possible due to the government employment policy and socialist tendencies. The government encouraged unionization for purposes of satisfying a social obligation of providing employment to people. In addition, the socialist tendencies of Obote regime gave clout to unions. For instance, President Obote used to say that he loved three people - the students, peasants, and workers.[234]

**Table 6 . 1 Trade Union Membership Trends of SOEs/PSOEs 1990-2004**

| No | Union | 1990 | 1995 | 1998 | 1999 | 2001 | 2002 | 2004 | % Δ |
|---|---|---|---|---|---|---|---|---|---|
| 1* | UBTAWU c | 3500 | 1486 | 2388 | 1352 | 1432 | 4781 | 4781 | +36.6 |
| 2* | UBCCAWU c | 5500 | 3457 | 3500 | 3612 | 10150 | 10011 | 1293 | -76.4 |
| 4* | UCEU | 3500 | 1500 | 1400 | 1359 | 2650 | 859 | 630 | -82 |
| 7* | UEAWU g | 3500 | 2735 | 1700 | 1800 | 1637 | 1322 | 1322 | -62.2 |
| 8* | UFAWU | | | | | 1550 | 3202 | 3202 | - |
| 10* | UHFAWU | 4500 | 1953 | 1400 | 1400 | 3400 | 4507 | 4507 | +0.2 |
| 13* | UMMAWU i | 4500 | 1415 | 1193 | 1299 | 2767 | 2503 | 2610 | -42 |
| 14* | NUPAWU b | 22000 | 32838 | 42000 | 47000 | 50000 | 47213 | 47213 | +114.6 |
| 17* | URWU | 5000 | 1200 | 1273 | 800 | 1600 | 1020 | 1250 | -75 |
| 18* | UTGLAWU e) | 9500 | 1580 | 2500 | 200 | 1520 | 3034 | 3034 | -68.1 |
| 19* | ATGWU f | 5500 | 1301 | 4000 | 3833 | 4633 | 5407 | 5407 | -0.12 |
| | SOEs Only | 67000 | | | | | | 75359 | +12.5 |
| | Non-SOEs | 34500 | | | | | | 92135 | |
| ∑ | All | 101500 | 62646 | 100682 | 102014 | 165079 | 146427 | 167494 | +65 |

*Note: i) * unions with SOEs firms, ii) Δ =change a)*Commercial, clerical and technical employees in the marketing boards,[235] research institutes, insurance companies, the National Social Security Fund (NSSF), Bata Shoe Company and banks., b) tea estates and sugar plantations, c) building, construction, housing, cement, and roofing industries, d) soft drinks, beer, and tobacco, e) garments, leather and textiles industries, f) bus and air transport, oil companies, petrol stations, and private security organizations, g) electricity and cable, h) UP&TC and the new mobile telephone companies, i) mines and steel works; iii) SOEs=state owned enterprises/PSOEs privatized state owned enterprises

*Source:* Department of Research and Economics, NOTU 2006.

The sources of TU powers originated from SOEs' authority to hire and fire. SOEs' power to recruit and lay-off staff automatically gave unions the right to protect workers' interests. The terms of hiring and firing of an employee in SOEs were determined by Trade Unions. SOEs that were not given powers to hire and fire did not form unions in which case the parent ministry employed staff and also determined their working conditions, as was the case in UFEL.[236] SOEs' power to hire and fire was given by statutory instrument to either the board or management, and this automatically gave unions the right to protect the workers' interests. The existence of a union, however, did not always grant every worker the right to be unionized. The unionized levels were negotiable between the employer and the union. Hence, the lowest level of unionization depended on employer-employee agreement[237,238,239] usually stipulated in the recognition agreements (Barya, 2001:13).

Later, and when privatization had set in, in 1993, legislation allowed more association limiting the area of non-unionized employees in the private sector to only a very small section of personnel and industrial relations officers. Only officers and employees of the rank of personnel, labour, industrial relations officer, Chief Judge, Magistrate of the Court of Judicature and personal secretary were excluded [240] (Barya, 2001:15). In addition to the legislation, officers or employees could be excluded from membership of a trade union or employees' association by mutual agreements between an employer and the trade union to which such officers or employees belonged.[241] One impact of TU and SOE ownership was the share of wages in SOE expenditure.

In firms such as those in agro-processing and textiles, wages formed a big percentage in SOEs' total expenditure. For instance, textiles had wages accounting for 47.2%, tiles 24.1%, and energy 51.4% of total expenditure before privatization. This implied that restructuring some of these SOEs through retrenchment and automation in textiles and the energy sectors respectively could have paid dividend. Taking the example of energy and banks, automation in such ventures as pre-paid electricity service could have released meter readers, staff in bill distribution, amount of paper used, and those people who disconnect and reconnect power. In banking, introduction of ATMs could have eased staff costs after privatization. Government, however, both before and after privatization refused to lay off workers citing political reasons.

Wages were, however, not the only reason for a big-wage bill although it is difficult to know which of the two: wages or overstaffing was more responsible. Before privatization, SOEs were generally overstaffed especially the fully SOEs. A firm was considered overstaffed if the ratio of line to support staff differed from the straight forward rule-of-the-thumb of two-to-one. UDC and Hima Cement Industries help illustrate the problem. While UDC had both line and support sections, the support staff rose faster than the line staff numbers. By 1990, it had 22 line and 28 support staff giving a ratio of 1: 1.25 that was considered higher compared to the mentioned rule. In the case of the Uganda Cement Industries Limited (UCIL), although it hardly produced cement it employed about 1,400 workers on full-time pay roll in the 1990s (UDC, 1990:6-7, 13). Overstaffing in SOEs was caused by the government's policy to employ as many people as possible.

It was, therefore, not surprising that SOEs contributed greatly to employment, accounting for 20 per cent of total employment in the manufacturing industry in Uganda in 1963 and 1964. Stoutsdijk (1967:37-8) argued that in 1963, the five manufacturing firms of UDC employed total of 3,905 persons that increased to 4,019 in 1964. Comparing UDC with the country's employment surveys for the same period of 19,220 and 20,838 accounted for 20 per cent of total employment in the manufacturing industry in both years. A further comparison of Uganda's employment with the rest of the third world for the 1978-1985 period shows that Uganda's SOE employment was near Africa's 19.9 per cent, although it superseded Asia's of 2.9 per cent, and Latin America's 2.8 per cent. Uganda's SOEs doubled the LDC average of 10.2 per cent implying that Uganda was one of those countries that over-recruited in the SOE sector during the period, although Stoutsdijk (1976) refuted this. These lavish conditions and union powers took a stranger turn after privatization.

### *6.1.2. Salaries and Wages after Privatization*

This situation changed after privatization, the new buyers cunningly increased salaries for managerial, technical and clerical staff in agreements only.

Practically, however, they recruited the staff to high positions as group employees who did not enjoy negotiated terms. In addition, PSOEs laid off more highly paid group employees earning shs. 300, 000= and replaced them with those willing to work for shs. 100, 000= per month. This resulted into falling wage-bill as well as product quality in the tea sector. After privatization, while working conditions improved on paper for the majority of sectors, increasingly few staff enjoyed them. These terms were for permanent staff, yet majority were recruited on temporary and contract terms set by the PSOEs' new owners. According to the Table 6.2, salaries increased by 97.1 % to 15.7 times the original figure in the lowest; and 89.2 % to 23.1 times in the highest paid categories respectively after privatization. The rise in salaries was due to growth, union pressure and competition. Hotels and beverages had some of the highest growth rates and therefore absorbed more workers after privatization. A second reason for increase in salaries was trade union pressure. As already stated, some trade unions also still played some role in improving workers' conditions as the Coca-Cola example shows. The company had some of the worst working conditions in the country whereby payment was fortnightly. The miserable hourly rates ranged between Shs 598 and 1,559 and were recorded on *clock-cards*.[242] Union intervention, however, caused monthly payments and better wages and a retirement package that did not exist before.[243] Third and last conditions improved due to competition such as in sugar and telecommunications.

In the sugar industry rivalry among K$_i$SW, KSW, and SCOUL ensured that workers conditions improved since they determined product quality. In the telecommunication, conditions improved immediately in UP&TC after privatization, due to competition created by new entrants, MTN and CELTEL. The two companies were involved in poaching skilled workers of UP&TC by paying the workers better salaries than they enjoyed in their previous jobs. However, these terms were declining.[244]

Table 6.2 shows salary scales of TU member firms before and after privatization. The figures show a general increase in salaries for all firms.

**Table 6.2 Privatization Impact on Wages of 11 SOEs/PSOEs in Shs 1986-3**

| | Firm/Union | Before Privatization | | After Privatization | | % Change |
|---|---|---|---|---|---|---|
| | | Lowest | Highest | Lowest | Highest | L-H |
| 1 | UEB/Eskom-(1996/2006)-UEAWU | 251591 | 496000 | 532200 | 1167950 | 112-.135.5 |
| 2 | LVBC 1993/2005[245] -UHBAWU | 173447 | 263719 | 259134 | 353516 | 49.4-34.1 |
| 3 | Coca-Cola/Century1998[246]/2005[247]- UHBAWU | 598$^{-1}$hr - 05248 | 1559$^{-1}$hr - 274384 | 317619 | 519120 | 201.7-89.2 |
| | Coca-Cola/Century-Mbarara - UHBAWU | | | 290702 | 443870 | - |
| 4 | Nile Breweries Limited 1988[248]- UHBAWU | 1500 | 3135 | 371184 | 475677 | 246.5-150.7 |
| 5 | Uganda Breweries Limited - UHBAWU | 150654 | 210000 | 334265 | 583910 | 121.9-178.1 |
| 6 | BATU 1987[249]/2005[250]- UHBAWU | 15858 | 33429 | 265028 | 803988 | 1571-2305 |
| 7 | BOBU Clerical (NUCCPTE) | | | 793693 | 1527267 | |
| | BOBU/2005[251](support) NUCCPTE) | | | 563293 | 1103996 | |
| 8 | UCWL 2005 (UBCCAWU) | | | 166900 | 371800 | |
| 9 | Hima Cement (lunch, rent) (UBCCAWU) | | | 347928 | 753299 | |
| 10 | ENHAS (APGWU) | 160000 | | 327000 | | 104.4 |

Notes: 1) L= lowest, H=highest categories; 2) SOEs=state owned enterprises/PSOEs=privatized state owned enterprises; 3) UEB=Uganda Electricity Board, LVBC=Lake Victoria Bottling company, BATU=British American Tobacco of Uganda, BOBU=Bank of Baroda Uganda, UCWL=Uganda Clay Works Limited, ENHAS=Entebbe Handling Services

*Source*: Fieldwork Results, 2006.

The best salaries were in banks, where the lowest clerical and support staff earned Shs. 793,693 (US$400 and Shs 563,293 (US$300) respectively. Practically, however, few enjoyed these new terms. The worst salaries were in plantation where basic salaries were below survival.

After privatization, wages increased in total expenditure for some firms such as garments and energy accounting for 54.8% for UEB, 46 % for metal, and tobacco 40.2%, soda for 27.7%, and sugar for 178.6%. Some of the causes of this big wage bill were overstaffing. Most of the PSOEs were overstaffed as already explained and a policy of laying off some workers would have increased profitability and efficiency.

Group employees earning between Shs. 100, 000 (US$50) and Shs. 300, 000= (US$150) formed the majority of workers after privatization. The group employees who earned Shs. 300, 000= were laid off and replaced with those who earned less than Shs. 100, 000= per month. Top managers earned Shs. 2

million (US$1,000), middle managers about Shs. 1.2 million (US$600), technical workers between Shs. 300, 000= (US$150) and Shs. 500, 000= (US$250) while clerical staff earned between half a million shilling (US$250-500) a month (UMA, 2000). The figures were consolidated with all the benefits leaving no room for adjustment especially during inflation.

The reasons for the group employees' growth emanate from the privatization process itself since businessmen target profits unlike government that may pursue social welfare objectives. Hence, with privatization, the new owners preferred to evade terminal benefits by employing workers with temporary tenure that did not attract improved pay and benefits. Interestingly, the term group employees originally referred to a low cadre, temporary, non-pensioned, staff including cleaners, messengers, security guards, tea-girls or boys, *shamba* boys and to some extent drivers. By the time of privatization, most workers were group employees regardless of calibre.

In the energy and plantation, salary reviews were either slow or very marginal respectively. In the energy sub-sector, despite the recognition agreements, salary reviews were slow. Eskom went a step further over salary negotiation and set its own salary structure that was later agreed upon with the union - UEAWU. While the union submitted a proposal to UEDCL (Umeme Ltd), the UETCL salary structure was renewed annually.[252] In the plantation,[253] the changes in salary after privatization was small and below the survival level - causing child labour. In order to generate meaningful income from a day's work, one needed to take the entire family to help to harvest enough tea leaves to enable workers survive. NUPAWU wrongly attributed this to absence of a minimum wage.[254]

Economic theory, however, points out that a policy of minimum wage legislation can succeed not only when the minimum wage is fixed above the market clearing wage but also when the government is able to withdraw the excess labour caused by the policy. These conditions did not only sound tricky but also impossible respectively. To begin with, nobody knew exactly the market clearing wage. In addition, Uganda government lacked capacity to withdraw excess labour because it lacked resources with half of its national budget footed by donors. Although government had promised to give the unemployed benefit of shs. 18, 000= (US$10) per month in the 2007/8 financial year, this was even below the ‘minimum wage’ of shs. 53, 385=.

There was no minimum wage law in Uganda. Instead, some agreement was reached between the Federation of Uganda Employers (FUE) and NOTU on wages. The minimum wage in Uganda was set at Shs. 53, 385 (US$27) after several consultations. In 1995, a Minimum Wage Board made recommendations to government but the latter foot-dragged. Two years later, the Board, comprising of FUE, Ministry of Labour (MoL) and NOTU recommended Shs. 75, 000 (US$37.5) but Cabinet rejected this proposal and instead reviewed it downwards to Shs. 65, 000 (US$32.5). FUE, then, conducted a parallel study and recommended Shs. 20,000 (US$10). Eventually, the Prime Minister, Apollo Nsibambi chaired a meeting in 1999 and the parties agreed on Shs. 53, 385 (US$27) as minimum wage (Barya, 2002:18). Against this background, initial privatizations dished out some of the worst work conditions ever experienced.

Salaries did not display only the usual worker levels but also industrial differences. For instance, the salary differed among industries, the smallest being recorded in the textile, followed by the plantation-based industries, and utilities came last (Okuku, 1995:14).

Impact of privatization on salary is best expressed in total wage bill of PSOEs. Total wage bill for 31 PSOEs surveyed fell from 14.9 to 9.1 billion shillings, representing 38.9 percentage points, explained by several factors including lay-offs, lower salaries for temporary workers and bankruptcy although it was difficult to exactly say how much of the wages and redundancy were responsible for the fall in the total wage bill. The fall in industry exceeded trade and services. Industrial establishments reduced their share of wages in total expenditure by 3.6; while trade and services decreased theirs by 2.1 percentage points after privatization. Interestingly, the fall in wages was not uniform. While the industrial sector recorded overall fall, some individual firms such as Tobacco, Soda, Metal and Energy increased their share of wages in total expenditure by 35.2 %, 26.2 %, 42.4 % and 3.4 % points respectively, explained by better salaries and wages and growth in these sectors. On the contrary, transport, telecommunications and banking cut their wages in total expenditure by 22.8 and 6.2 percentage points respectively, explained by layoffs or redundancies and lower wages.

Concluding behaviour of wages in SOEs and PSOEs show a sharp contrast particularly for the fully SOEs than the FDI firms. Before privatization, wage determination depended not only whether the enterprise was either fully government-owned or FDI, but also the industry type. Determination of workers' salaries and wages, particularly for the fully SOEs, was based on factors other than production or profitability explained by state ownership and trade union pressures. On the contrary FDI firms tended to ignore the idea of collective agreement and fluffed the trade unions and their restrictive working practices consequently igniting strikes and other violent actions that also differed in industry type with varying intensities. In the Tea and the Sugar plantations, the workers destroyed the crop, while in the textiles industry, they harassed the management and the strikes were less violent. After privatization, this situation changed, the new buyers cunningly increased salaries for managerial, technical and clerical staff in agreements (read paper) only. Practically, however, they recruited the staff to high positions as group employees who did not enjoy negotiated terms. In addition, PSOEs laid off more highly paid group employees earning shs. 300, 000= and replaced them with those willing to work for shs. 100, 000= per month consequently causing falling total wage-bill although the fall in wages was not uniform. While the industrial sector recorded overall fall, some individual firms such as Tobacco, Soda, Metal and Energy increased their share of wages in total expenditure by 35.2 %, 26.2 %, 42.4 % and 3.4 % points respectively, explained by better salaries and wages and growth in these sectors. On the contrary, transport, telecommunications and banking cut their wages in total expenditure by 22.8 and 6.2 percentage points respectively, explained by layoffs or redundancies and lower wages. In the next sub-section, I show yet another similar transformation in working conditions of SOEs and PSOEs.

### *6.2. Fringe Benefits in Public and Private firms*

In this sub-section I represent fringe benefits by allowances and other conditions such as lunch, medical, transport, and hours of work. Before privatization, purely government-owned SOEs were lavish in granting benefits unlike the FDI firms. UP & TC and UCB suffice to illustrate these worker conditions. In the UP & TC, the Minister regularly appointed officers and employees when necessary for the proper and efficient discharge of its functions.[255] The Board could also grant pensions, gratuities or retirement allowances to the staff and employees pension, provident fund or super-annuation scheme.[256] In addition, it was always possible for officers in the civil service to access SOE posts through secondment.[257] Hence, SOEs became extensions of the traditional civil service with all the ills of the latter although salaries and benefits in civil service were poorer compared to SOEs. In the UCB, the Managing Director[258] appointed most employees on terms and conditions laid down by Board[259] as already explained under salaries. Second, most staff on falling sick were treated in the company clinics and not a public hospital (Asowa Okwe, 1999:12). Third, the average working day of eight hours was mostly observed, particularly in the fully SOEs firms (Asowa Okwe, 1999:16-7), but this was not the case in FDI s. Staff in firms with some element of foreign ownership worked longer hours between 10-12 hours. Hence, in FDIs, working hours and employee numbers changed depending on the volume of work available. For instance, workers laboured for 8.1 hours, 12.2 hours, 13.4 hours, and 8.5 hours in BATU 1984 Limited (BATU), Kakira Sugar Works (KSW), African Steel Mills (ASM) and Nile Breweries Limited (NBL) respectively. Particularly, in BATU, the duration of work tended to vary with the volume of work or amount of tobacco available for processing at a particular time (Asowa Okwe, 1999:16-7). In Kakira Sugar Works (KSW) and African Steel Mills the combined total of casual and contract workers were as big as the permanent employees. Thus FDI firms were, however, more geared to productivity than in the entirely government-owned SOEs. In pure SOEs, unlike FDI, government allowed lavish benefits before privatization but this situation changed after privatization whereby determination of benefits was based on industry-type and profitability.

### *6.2.1. Fringe Benefits after Privatization*

After privatization, changes in fringe benefits were mixed: being determined by trade unions, contests, competition, industry type and market share on one hand and profitability on the other hand before pre-1996 and post-1996 privatizations.

#### *6.2.1.1.Pre-1996 Privatization: Industry Type, Market Share,*

After privatization, fringe benefits such as lunch, transport, and safety standard in PSOEs depended on trade unions, contests, competition, and industry type and market share. In early privatization, the government neither prepared for retraining, redeployment of demobilised staff, nor ensured the installation of legal and contractual obligations before reform. Instead, government condoned mistreatment of both the old and new workers in the PSOEs by just signing ''no obligation guarantees'' to the buyers (Barya, 2001:33).

The only statutory provisions for the employees in the PSOEs was in the PERDS that simply stated that the Finance Minister would ensure the payment to the demobilized employees arising out of restructuring or liquidations through the establishment of a redundancy account.[260] Government through a responsible Minister and the Board of Directors and management of the SOEs could use the sale proceeds in the divestiture account to compensate or provide for demobilized staff arising from divestiture.[261]

While PSOEs particularly those covered by ATGWU or NUPAWU had taken over tasks that used to be for unions and thereby improving some working conditions with intention of being well rated, industry type and market share were the overriding issue determining work conditions. In the oil companies, all staff including upper management and lower cadres lunched together unlike in the past where senior and junior staff sat separately. In addition, unlike before, all staff were collected in the morning and dropped in the evening using the same transport for both categories of workers. This helped to reduce discrimination. In the plantation industry, issues like protective gear were part of work discipline and ethics and not a safety standard requirement to be enforced by unions such as ATGWU or NUPAWU any more. In addition, occupational health and safety and training were part of company policy. In the plantations, an officer was employed to take care of such issues, which was not the case before. With respect to safety, all employees had general things like an overall and gum-boots but always lacked specific section protective gears such as nose-masks for sprayers or heat-repellent uniform for those working in hot sections like chimneys. The employers defaulted to provide specific gears because they were imported and expensive. First, despite the improving conditions, ATGWU still required the members for solidarity and pooling or good practice purposes that meant that despite the general improvement, some oil companies such as GAPCO paid lower rates than others, due to differences in market shares. GAPCO, the Indian-owned firm that bought Esso Uganda Limited, was responsible for failing to sign the new agreement and for four years paid the lowest terms.[262]

Second, the introduction of '*Employer of the Year Award*' played a major role in continuous review of working conditions particularly in the plantation sub-sector. The gold, silver and bronze medal *awards* were given to the three employers who treated workers fairly. Employees and trade union officials were the respondents who chose the good employers. Employers valued the award because of the publicity it gave to the company and numerous benefits associated with it. Third, competition in the sugar industry among $K_i$SW, KSW, and SCOUL also ensured that workers' conditions improved since they determined product quality. Fourth and last, trade unions also still played some role in improving workers' conditions as the Coca-Cola example shows.

Coca-Cola had some of the worst working conditions in the country whereby payment was fortnightly. The miserable hourly rates ranged between Shs 598 and 1,559 and were recorded on *clock-cards*.[263] Union intervention, however, caused monthly payments and better wages and a retirement package that did not exist before.[264] Unlike poor conditions in FDIs and unprofitable PSOEs, terms were better in more profitable PSOEs.

*6.2.1.2. Post-1996 Privatization or Profitable SOEs*

On the contrary, privatization of the relatively more profitable Uganda Airlines and utility sector after 1996 brought in more protection of the workers' rights than before privatization. Barya wrongly explains the better terms by the presence of three workers' MPs who sensitised and lobbied fellow MPs on workers' interests. Barya wrongly argues that the MPs struggled on their own to bring on board such issues for debate and attention by Parliament. Barya maintains that they articulated and presented workers' demands directly instead of relying on third parties as used to be the case in the past. He does not explain whether the existence of workers' MPs alone significantly altered the motivation in the post-1996 period when the ideal conditions for motivation indicated otherwise. Hence Barya tends to ignore neo-classical determinants of motivation such as market structure and profitability of enterprises in the utility and airlines sub-sectors.

In addition, Barya fails to point out the differences between pre-1996 and the post-1996 firms.[265] During sale, it was agreed that small enterprises (loss-making) would be sold first and bigger ones (profit-making) last. Hence, the bigger ones that were sold later, like the UP & TC, UEB and UAC/ENHAS were more profitable than the pre-1996 ones.

In the utility sector, on privatization, UEB and UCC Acts provided that all employees who transferred services to the new bodies[266] would do so *on similar or better terms* as compared to those enjoyed by employees before transfer.[267] The new bodies would assume the terms and conditions of service applied to the UP & TC and UEB respectively at the commencement of the two acts.[268] The two acts spelled terms of former employees of the UP & TC and UEB who, at the commencement of the statutes 8/1997, were receiving retirement benefits and pensions from the two SOEs would continue to be paid by the government.[269] The staffs of both corporations made redundant as a result of the reforms would be paid the calculated and ascertained retirement benefits and pensions from the SOEs before the repealing of UP & TC and UEB.[270] A contributory pension fund initially government-financed would be established for the permanent employees of the UP & TC and UEB before any reforms for any staff who transferred to the new bodies.[271] In addition, all employees of UP&TC and UEB who transferred to the Uganda Posts Limited (UPL), Uganda Telecom Limited (UTL), the Post Bank Uganda Limited or the Uganda Communications Commission (UCC); and the Uganda Electricity Distribution (UEDCL), Uganda Electricity Generation Company (UEGCL) or the Uganda Electricity Company (UETCL) in case of the power sub-sector would have their terminal benefits calculated, ascertained and transferred to the Contributory Pension Fund (CPF) before commencement of the acts, and any employee who retired, dismissed or terminated for any reasons after transfer would be paid.[272] The reality was not as expected fading immediately after privatization in the UP & TC on one hand; while adjusting work conditions in the UEB was slow.

Conditions improved immediately in UP&TC after privatization, in the postal and telecommunications due to competition and union pressure created by new entrants, MTN and CELTEL. MTN and CELTEL were involved in poaching skilled workers of UP&TC by paying the workers better salaries than they enjoyed in their previous jobs. However, these terms were declining.[273] Current conditions in the MTN and CELTEL were more of window-dressing than handling the problem. Instead of offering favourable terms, the new entrants invested in high-sounding projects but of a temporary nature under the so-called ‘social corporate policy’ such as in education donations, philanthropic activities for society, supporting the aged and HIV/AIDS, orphanages, and cultural institutions.[274]

In the energy sub-sector, despite the recognition agreements, review of salary and terms and conditions of work were slow. The three firms of UEGCL (ESKOM), UETCL, UEDCL were still upholding the old (UEB) terms and conditions of service.[275] In the next section, I look at the last measure of hygiene factors-job security.

Summarizing work conditions in the public display a similar picture like that obtained before privatization when considering wages. Like for wages, working conditions in SOEs was partly dictated not only by whether firms considered were fully government owned or FDI but also by nature of industry under discussion. Before privatization, purely government-owned SOEs were lavish in granting benefits such as medical, housing, transport, and pensions and gratuities or retirement allowances not linked to production or profitability unlike FDIs. In FDIs, however, staff tended to work according to the situation. For instance, while the working day was 8-hours in SOEs, staff in FDI firms worked longer hours between 10-12 hours and employee numbers changed depending on the volume of work. After privatization, changes in fringe benefits were mixed: being determined by trade union pressures, contests, competition, industry type and market share on the one hand and profitability on the other hand before pre-1996 and post-1996 privatizations respectively. Pre-1996 privatization, the government did not ensure the installation of legal and contractual obligations before reform and instead condoned mistreatment of both the old and new workers in the PSOEs by just signing ''no obligation guarantees'' to the buyers. On the contrary, post-1996 privatization of the relatively more profitable Uganda Airlines and utility sector after 1996 brought in more protection of the workers' rights than the pre-1996 privatization. The lower changes in wages and benefits favoured industrial performance.

### *6.3. Job Security in the Public and Private Sectors*

Just with salary and benefits, in SOEs especially the wholly government-owned firms, job security was equally guaranteed once employed before. The SOEs' offered lavish terms of permanent and pensionable (PP) but this drastically changed to temporary and re-trenchable (TT) after privatization. Before privatization, particularly in the SOEs that were purely government-owned, the terms and conditions of hiring and firing were permanent and pensionable (PP) (Asowa Okwe, 1999:12).

The Board did hiring and firing but the firing of senior staff such as Company Secretary, Chief Accountant and Heads of Department, divisions or projects required approval by the Minister [Decree 24/1974, s.6&7; Decree 23/1974] explained by government policy of job creation as well as TU involvement already explained.

**Table 6. 3 Job Security in 14 SOEs before Privatization**

| Work place | No answer | Casual | Contract | Permanent | Others | Total |
|---|---|---|---|---|---|---|
| UCI | | | 8 | 27 | | 35 (6.3%) |
| Casements | | | | 26 | 1 | 27 (4.9%) |
| **Luwala** | **15** | | **5** | **33** | | **53 (9.6%)** |
| **Kasaku** | | **2** | **5** | **30** | | **37 (6.7%)** |
| UGMA | | | | 22 | | 22(4.0%) |
| **SCOUL** | | | **5** | **30** | | **35 (6.3%)** |
| Jute | | 2 | | 23 | | 25(4.5 %) |
| Tororo Steel Works | 1 | 5 | | 15 | | 21(3.8%) |
| **Uganda Blanket** | | **13** | **1** | **27** | | **41(7.4%)** |
| BAT | 1 | | | 21 | | 22(4.0%) |
| Nile Breweries | | | 1 | | | 47(8.5%) |
| Uganda Breweries | 1 | | | 46 | | 22(4.0%) |
| **Kakira KSW** | | **3** | **25** | **21** | | **73(13.2%** |
| **African Steel Mills** | | **24** | **13** | **45** | **1** | **70(12.75%** |
| **Total** | **17 (3.1%)** | **50 (9%)** | **63 (11.4%)** | **32 (75.9%)** | **2 (0.4)** | **553 (100)** |

Note: i) UCI=Uganda Cement Industries, UGMA=Uganda General Machinery, **SCOUL=Sugar corporation of Uganda,** BAT=British American Tobacco, KSW=Kakira Sugar Works; ii) SOEs=State owned enterprises
*Source*: Asowa Okwe 1999, pages 12-5, Table 1.

Table 6.3 gives some examples of the nature of job security before privatization in both FDIs and fully SOEs. Generally, 75.9% of the employees were recruited on permanent basis (column 5, Table 6.3) against 11.4% contract (column 4, Table 6.3) and 9% casual (column 3, Table 6.3). These SOEs' lavish conditions of service changed drastically after privatization from permanent and pensionable (PP) to casual workers regardless of rank.

### *6.3.1. Job Security after Privatization*

After privatization, job tenure became more temporary than before. The casualness is best described by postal union officials. Temporary employment, for instance, in the telecommunication sub-sector, was on temporary and contract terms for most crucial jobs that required skills. In PSOEs, the terms casual, temporary, and contract were characterized and meant ‘daily but continuous,’ ‘six months to one year,’ and ‘one to three years’ in the private sector respectively.[276]

Despite the fall in group employment, the share of group employment compared to total employment increased. Privatization mostly favoured group employees whose number grew from 52.3 to 69.5 per cent on sale and the sixth year after sale (See Table 6.4, Row 17). The latter category (earning less than Shs 100, 000 = US$50) replaced the more highly paid counterpart - the upper group employees category (earning Shs 100-300, 000=US$50-US$150). The upper group employees’ category (earning Shs 100-300, 000=US$50-US$150) were retrenched and replaced by the relatively less paid counterparts (earning Shs 100-300, 000 =US$50-US$150) explained by a need to cut costs but with negative effects on product quality.

**Table 6.4 Employment by Sector in 21 PSOEs on and after Privatization**

| Sector/ Years after Sale | on Sale (0) | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|---|
| Manufacturing | 3835 | 4336 | 4252 | 2737 | 2447 | 1654 | 653 |
| **Transport** | 218 | 207 | 342 | 412 | 91 | 102 | 103 |
| **Trade** | 28 | 20 | 15 | 14 | 15 | 0 | 0 |
| **Finance** | 266 | 260 | 100 | 111 | 0 | 0 | 0 |
| **Tourism**** | *295* | *297* | *302* | *305* | *322* | *0* | *0* |
| **Agro-processing** | 40 | 200 | 49 | 46 | 46 | 0 | 0 |
| **Total** | **4682** | **5320** | **5060** | **3625** | **2921** | **1756** | **756** |
| Full-time | 3509 | 3267 | 3535 | 2823 | 2221 | 1288 | 727 |
| Contract | 77 | 650 | 155 | 175 | 226 | 183 | 5 |
| Casual | 1096 | 1403 | 1370 | 627 | 474 | 285 | 24 |
| **Total** | **4682** | **5320** | **5060** | **3625** | **2921** | **1756** | **756** |
| **Top** | 92 | 97 | 87 | 83 | 59 | 31 | 6 |
| **Medium** | 200 | 202 | 200 | 206 | 139 | 69 | 33 |
| **Technical** | 601 | 662 | 752 | 763 | 523 | 436 | 24 |
| **Clerical** | 756 | 741 | 614 | 684 | 372 | 228 | 76 |
| **Group** | 1807 | 1706 | 2347 | 2293 | 1199 | 915 | 318 |
| **Total** | **3456** | **3408** | **4000** | **4029** | **2292** | **1679** | **457** |

Note: i) PSOEs =privatized State Owned enterprises; ii) **= High growth sector; iii) At sale (0) =number of years at the time of privatization; 1, 2, 3, 4, 5, etc
*Source*: Computed from UMA (2000), Table A1.

The driving force behind casualness was competition, which required cutting down on production costs. At first, employers turned both permanent employees into casual workers who did not enjoy negotiated terms and conditions since they were not unionized. The reason for turning permanent workers into casual ones was to evade paying negotiated terms such as leave, housing and medical. In the plantation union (NUPAWU), the only fairly permanent employees were the low cadre contract workers including cane cutters, weeders in sugarcane plantations; and sprayers and tea pickers in the tea sub-sector. The contracts were normally for a one-year period but renewable. The high unemployment rate in the countryside made it possible for terms to be changed to a situation whereby formerly permanent workers were recruited as temporary ones.

The impact of job insecurity on product quality is best seen in plantations of tea and sugar. In the tea sub-sector, quality was poor due to the casualness and consequent poor terms of service, among others, that also impacted negatively on tea quality. In comparison, the quality of Kenya tea was better than that of Uganda's because the former carried out training at Kericho Training Institute.[277] Initially, c*asualization* resulted into a drop in the product quality of both the sugar and tea sectors forcing the management, on recommendation of management and the plantation union (NUPAWU), to change policy. In order to avert the situation, the causal were turned into contract and permanent staff in the sugar industry.

According to the General Secretary, of the plantations workers (NUPAWU), lowering the job tenure impacted on product quality in tea and sugar cane sub-sector in Uganda. While picking tea leaves, it was the youngest bud that was harvested and not all leaves, after privatization; untrained workers harvested everything causing a fall in the tea quality. The selecting of leaves and failure to process sugar on the same day could be signs of general fall in quality, but this needed to be confirmed for all other sectors. In the sugar cane industry, before privatization, sugarcane cutters were permanently employed working 8-hours a day after which they embarked on their overtime to generate more money. In the sugar industry, canes were processed on the day of harvest to produce fine white sugar otherwise molasses would be the product instead of fine white sugar. If sugar were processed on the same day, 11 tones of cut sugar-cane would produce one tone of fine sugar. If, however, the canes were not processed on the same day; the same 11 tones of cut sugarcanes would produce less than a tone of fine sugar. After privatization, it was discovered that the casual workers always left unfinished work. The new buyers of PSOEs disbanded the permanent employees and recruited casual ones. Under this arrangement, the daily job was per task which was 3 tones which proved impossible and one had to do a day's work in two days. The failure to process the canes on the same day caused most of the would-be sugar to become molasses causing a fall in sugar quality.

.

Summarizing job security defined as the length of contract tenure, changed from permanent to temporary before and after privatization. After privatization, the terms *casual*, *temporary*, and *contract* characterized and meant 'daily but continuous,' 'six months to one year,' and 'one to three years' employment respectively. The impact of reducing job tenure, however, caused falling product quality in the tea and sugar sub-sectors pre-empting employers on the advice of trade union management to improve the job tenure length since sugar-cane and tea harvesting required training that was not favoured by the temporary nature of tenure that these new owners offered.

In comparison, the three motivation types offer interesting lessons in manual jobs that also required some skills. In the lowest paid tea and sugar cane plantations sector, while wages and fringe benefits fell due to retrenchment of more highly paid and replaced them with relatively lesser paid consequently boosting firm profitability; the bottom line to this labour exploitation was job security. On the contrary, attempts to lower job tenure to lesser permanent levels threatened and indeed affected product quality, sales revenues and firm performance negatively forcing management to reach some agreements with the trade unions. These opposing results had explanations in the fact that while for lay-offs people left and were replaced by new ones who accepted lower wages and fringe benefits and thereby not affecting worker satisfaction, more temporary terms attracted and favoured untrained staff that led to sub-standard work hurting product quality and the revenue base of the firm. This would tend to suggest that in the lowest paid industries that also used manual skills, cutting wages and fringe benefits through layoffs and fresh recruitment could boost profitability; but increasing temporariness (reducing tenure) in jobs that required training would harm sales revenues and profitability and thereby put a limit to how motivation would be manipulated to improve firm performance.

### *6.4. Summary*

The chapter set out to investigate the nature of motivation in public and privatized sectors in Uganda. I defined motivation using three variables of wages, fringe benefits and job-security. The results indicate that the behaviour of wages in SOEs and PSOEs show a sharp contrast particularly for the fully SOEs than the FDI firms. Before privatization, wage determination depended not only whether the enterprises was either fully government owned or FDI, but also the industry type. Determination of workers' salaries and wages, particularly for the fully SOEs, was based on factors other than production or profitability explained by state ownership and trade union pressures. On the contrary, FDI firms tended to ignore the idea of collective agreement and fluffed the trade unions and their restrictive working practices, consequently igniting strikes and other violent actions that also differed in industry type with varying intensities. In the Tea and the Sugar plantations, the workers destroyed the crop, while in the textiles industry, they harassed the management and the strikes were less violent. After privatization, this situation changed, the new buyers cunningly increased salaries for managerial, technical and clerical staff in agreements (read paper) only. Practically, however, they recruited the staff to high positions as group employees who did not enjoy negotiated terms. In addition, PSOEs laid off more highly paid group employees earning shs. 300, 000= and replaced them with those willing to work for shs. 100, 000= per month, consequently causing falling total wage-bill - although the fall in wages was not uniform. While the industrial sector recorded overall fall, some individual firms such as Tobacco, Soda, Metal and Energy increased their share of wages in total expenditure by 35.2 %, 26.2 %, 42.4 % and 3.4 % points respectively, explained by better salaries and wages and growth in these sectors. On the contrary, transport, telecommunications and banking cut their wages in total expenditure by 22.8 and 6.2 percentage points respectively, explained by layoffs or redundancies and lower wages.

Work conditions in the public enterprises display a similar picture like that obtained before privatization when considering wages. Like for wages, working conditions in SOEs was partly dictated not only by whether firms considered were fully government owned or FDI but also by nature of industry under discussion. Before privatization, purely government-owned SOEs were lavish in granting benefits such as medical, housing, transport, and pensions and gratuities or retirement allowances not linked to production or profitability unlike FDIs. In FDIs, however, staff tended to work according to the situation. For instance, while the working day was 8-hours in SOEs, staff in FDI firms worked longer hours between 10-12 hours and employee numbers changed depending on the volume of work. After privatization, changes in fringe benefits were mixed: being determined by trade union pressures, contests, competition, industry type and market share on one hand and profitability on the other hand before pre-1996 and post-1996 privatizations respectively. Prior to the 1996 privatization, the government did not ensure the installation of legal and contractual obligations before reform and instead condoned mistreatment of both the old and new workers in the PSOEs by just signing ‘’no obligation guarantees’’ to the buyers. On the contrary, post-1996 privatization of the relatively more profitable Uganda Airlines and utility sector after 1996 brought in more protection of the workers’ rights than the pre-1996 privatization. The lower changes in wages and benefits, made possible by high unemployment levels in the country, resulted into falling wage-bill favouring industrial performance.

Job security, defined as the length of contract tenure, changed from permanent to temporary before and after privatization. After privatization, the terms *casual*, *temporary*, and *contract* characterized and meant ‘daily but continuous,’ ‘six months to one year,’ and ‘one to three years’ employment respectively. The impact of reducing job tenure, however, caused falling product quality in the sugar and tea sub-sectors pre-empting employers on the advice of trade union management to improve the job tenure length since tea and sugar-cane harvesting required training that was not favoured by the temporary nature of tenure that these new owners offered.

### Theoretical implications

While Galal *et al* (1994) theoretically argues that in monopoly situations, privatization impact depends on whether the privatized sector remunerated workers better than the public sector, Uganda evidence seem to suggest that laying off workers enjoying higher wages and benefits and replacing them with those who accepted lower terms could improve firm performance in over-staffed firms. However, reducing job security could also worsen industrial performance if it affected product quality if new workers lacked skills. The combination of these two events could have self-cancelling effect limiting the extent to which motivation could impact on privatization effectiveness in the lowest paid agricultural sub-sector that used manual, *skilled* labour that required training. In the third-mentioned scenario, in the lowest paid tea and sugar cane plantations sector, while wages and fringe benefits fell due to retrenchment of more highly paid and replaced them with relatively lesser paid consequently boosting firm profitability; the bottom line to this labour exploitation was job security. On the contrary, attempts to make jobs more temporary threatened and indeed affected product quality, sales revenues and firm performance negatively forcing management to reach some agreements with the trade unions. These opposing forces of improving firm performance arising out of replacing well-paid, old with poorer paid workers on one hand; and worsening product quality and therefore sales arising out of employing inexperienced staff on the other hand had explanations in the fact that while for lay-offs workers left and were replaced by new ones who accepted lower wages and fringe benefits and thereby not affecting worker satisfaction, more temporary terms attracted and favoured untrained staff that led to sub-standard work hurting product quality and the revenue base of the firm. This would tend to suggest that in the lowest paid industries that also used manual skilled (trained) personnel, cutting wages and fringe benefits through layoffs and fresh recruitment could boost profitability; but increasing temporariness in jobs that required training would harm sales revenues and profitability and thereby putting a limit to how motivation would be manipulated to improve firm performance. In the next chapter, I discuss the effect of privatization on firm profitability and efficiency.

# Chapter 7

# 7. Privatization, Ownership and Firm Performance

In chapter one, I theoretically argued that the effect of privatization on firm performance can be positive, negative or none at all. In this chapter, I empirically investigate this relationship. I used SAS package to compute Whitney Man U tests on firm-level data of 15 companies. The firm-level data covered the years from 1986 to 2003. The 15 companies were broken up into two state (S=2), two mixed (M=2) and eleven private (P=11) firms. I also investigate whether FDI or local ownership on the one hand; and sector (industry-TRSE) on the other hand were associated with any observed change in performance after privatization.

The chapter has three parts. Part one is the methodology. The second part is the presentation of absolute figures and test results including: 1) effect of privatization on firm performance, 2) effect of FDI or local ownership on firm performance, and 3) effect of sector (industry- TRSE) on firm performance. The third and last is the conclusion and discussion of findings.

## 7.1 Methodology: normality tests

In order to know the nature and type of distribution of the data, I did an initial visual normality assessment of histograms. This helped not only in deciding scope for transforming (cleaning) average firm performance (See Appendix 3 & 4) but also determining the type of analysis to apply on the data. The visual assessment indicated that the first and third histograms of the mean TFP and ROCE variables for both "before" and "after" privatization portrayed two extreme values in both ends of the spectre showing quite large departures from normality. Furthermore, it seemed unlikely that a transformation would give a more normal distribution. In contrast, the two ROS mean variables "before" and "after" were more centrally distributed, with large peaks in the centre but visual normality assessment was less straightforward in this case. Lastly, the visual normality assessment for the median measures (TFP, ROS and ROCE), with the exception of ROS median before, was less straightforward and required further calculations. Considering that TFP and ROCE were not clear diagrammatically further calculations using the K-S and S-W tests were required to establish the nature of the distribution.

As already indicated, normality tested the data to determine the type of analysis to apply. If the variables were normally distributed, then parametric tests were possible. If, on the other hand, the variable was non-normal, then non-parametric testing was necessary. In comparative studies, both variables of 'before' and 'after' had to be normally distributed in order to use parametric tests. But if one was not, then remedy was the non-parametric analysis. The test revealed that most of the data was generally non-normal as I report in Table 7.1.

### 7.1.1. *Normality Tests for TFP, ROS and ROCE Means*

I used the Shapiro-Wilks (S-W) and Lilliefors significance corrected Kolmogorov-Smirnov (K-S) tests to ascertain the statistical normality assumption. The null hypothesis was a normal distribution while the alternative hypothesis was non-normality. A significant test meant that the tested variable was not normally distributed while an insignificant result meant that the tested variable was. The variables before and *after* had to be normally distributed in order to allow parametric tests. While the TFP and ROCE results were clearly non-normal, ROS displayed elements of normality.

While the rest of the means displayed non-normality, ROS was normal. The performed S-W and the K-S tests reported significant departures from the normal distribution for the mean TFP and ROCE before and after privatization with p-values of 0.02 and p=0.001 leading to strong rejection of the normality hypothesis and taking up the alternative hypothesis of non-normality. With the exception of ROS means and medians, all other variables were non-normal.

In contrast, the mean ROS "before" was more centrally distributed, with one large peak in the centre. Running the K-S and S-W tests for ROS before gave p-values of 0.200 and 0.910 respectively, confirming the suspicion of normal distribution. This result indicated significant departure from normality (Table 7.1, row 5). More tests were performed using the same K-S and S-W tests for medians TFP, ROS and ROCE before and after privatization. The combined mean and median K-S and S-W results for TFP, ROS and ROCE before and after privatization are summarized in Table 7.1.

### 7.1.2. *Normality Tests of TFP, ROS and ROCE Medians*

Just like the means, the K-S and S-W tests showed mixed results for the TFP and ROCE on the one hand and the ROS measures on the other hand, with the former non-normal but the latter normal also shown in Table 7.1.

**Table 7 1 Whitney-Man U Normality test results for firm performance (TFP, ROS, ROCE) of 31 SOEs before and after privatization 1986-2003**

| Measure | Kolmogorov-Smirnov (a) | | | Shapiro-Wilk | | |
|---|---|---|---|---|---|---|
| | Statistic | d.f | Sign | Statistic | d.f | Sign |
| TFP mean before | 0.441 | 16 | 0.000* | 0.449 | 16 | 0.000* |
| TFP mean after | 0.318 | 10 | 0.005* | 0.725 | 10 | 0.002* |
| **ROS mean before** | 0.129 | 22 | 0.200# | 0.980 | 28 | 0.910# |
| ROS mean after | 0.291 | 21 | 0.000* | 0.737 | 21 | 0.000* |
| ROCE mean before | 0.284 | 24 | 0.000* | 0. 630 | 24 | 0.000* |
| ROCE mean after | 0.217 | 17 | 0.032** | 0.800 | 17 | 0.002* |
| TFP median before | 0.451 | 16 | 0.000* | 0.376 | 16 | 0.000* |
| TFP mean after | 0.333 | 11 | 0.001* | 0.714 | 11 | 0.001* |
| ROS median before | 0.111 | 22 | 0.200# | 0.972 | 22 | 0.759# |
| ROS median after | 0.286 | 23 | 0.000* | 0.707 | 23 | 0.000* |
| ROCEmedian before | 0.308 | 24 | 0.000* | 0.499 | 24 | 0.000* |
| ROCE median after | 0.244 | 18 | 0.006* | 0.730 | 18 | 0.000* |

*Note: 1) # insignificant means normality; 2*=99 % confidence level, **=95 % confidence level3)* TFP=total factor productivity; **ROS= return on sales;** ROCE= return of capital employed; 4) d.f. =degrees of freedom

*Source:* Author's Calculations, 2004

While both the medians of TFP and ROCE variables showed significant departures from the normal distribution (p-values < 0.01), K-S and S-W test results for ROS medians showed normality before privatization. Hence, while the median ROS variable before privatization was normally distributed (K-S p-value=0.200; S-W p-value=0.759), the ROS medians after privatization were clearly non-normal (K-S and S-W p-values less than 0.001). The effect of 'ROS before' being normally distributed while 'ROS after' was non-normal needed taking any of the two options available: 1) either cleaning the non-normal ROS in order to perform a parametric test; (2) or performing non-parametric tests with available data since it was difficult to clean it any further.

The latter option, however, had to contend with the weaknesses of using non-parametric tests on a normally distributed 'ROS before' privatization. I opted for the latter non-parametric tests for the statistical assessment of difference privatization and firm performance (Table 7.1, row 11).

### 7.1.3. *Normality Tests for APC and RPC Means and Medians*

Further tests were carried out on APC and RPC of TFP, ROS and RPC for normality. As already stated in chapter 2 on methodology, it was necessary to compute a single measure to represent firm performance either average (APC) or relative (RPC). Just like for the means and medians of TFP, ROCE, and ROS variables, I tested the means and medians of APC and RPC for normality. Like the other entire previous tests, a significant test meant that the variable was non-normal. The results revealed that most of the variables were not normally distributed. With the exception of APC TFP mean, RPC TFP mean and median, the K-S test showed that the rest of the APC and RPC variables were non-normal. For the S-W test, only APC of the TFP mean was normally distributed (Table 7.2).

**Table 7 2 Whitney-Man U Normality Tests results for firm performance (APC, RPC) for 31 SOEs before and after privatization 1986-2003**

| | | K-S (a) | | | S-W | |
|---|---|---|---|---|---|---|
| | Statistic | d.f. | Sig | Statistic | d.f. | Sig |
| APCTFPm | 0.238 | 7 | 0.200* | 0.899 | 7 | 0.328 |
| RPC TFPm | 0.251 | 7 | 0.200* | 0.779 | 7 | 0.025 |
| APCROSm | 0.263 | 15 | 0.006 | 0.707 | 15 | 0.000 |
| RPCROSm | 0.416 | 15 | 0.000 | 0.566 | 15 | 0.000 |
| APCROCEm | 0.258 | 15 | 0.008 | 676 | 15 | 0.000 |
| RPCROCEm | 0.489 | 15 | 0.000 | 0.333 | 15 | 0.000 |
| APCTFPd | 0.306 | 7 | 0.046 | 0.745 | 7 | 0.011 |
| RPC TFPd | 0.281 | 7 | 0.102* | 0.735 | 7 | 0.009 |
| APCROSd | 0.309 | 15 | 0.000 | 0.677 | 15 | 0.000 |
| RPCROSd | 0.531 | 15 | 0.000 | 0.291 | 15 | 0.000 |
| APCROCEd | 0.373 | 15 | 0.000 | 0.490 | 15 | 0.000 |
| RPCROCEd | 0.380 | 15 | 0.000 | 0.621 | 15 | 0.000 |

*Notes: 1) m=mean, d= median; 2); 3)* APC=Average performance change, RPC=relative performance change; 4) d.f. =degrees of freedom; 5) K-S *a*= Kolmogorov-Smirnov *lilliefors significance correction*, S-W= Shapiro-Wilk

*Source:* Author's Calculations, 2004

In summary, the test sample was not normally distributed. As such, non-parametric tests were necessary and the results I report were generally based on non-normal data.

## 7.2 Test Results of Privatization on Firm Performance

In this section, I carry out three tests. First, I test whether privatization, measured either as differences in performance before and after or as a superiority of private over state, affected firm performance. Second, I also test whether local or foreign (FDI) ownership is responsible for any detected difference in performance after privatization. Third and last, I also test whether sector (TRSE/Industry) are responsible for better performance after privatization. I present the observed and test results of Mann-Whitney non-parametric immediately.

### *7.2.1 Effect of Privatization on Firm Performance*

In chapter one, I theoretically argued that the effect of privatization on firm performance gave mixed results. At times it had no effect at all (Omran 2002; Yallow, 1993), was positive (Boardman and Vining, 1989; Boycko, Schleifer and Vishny, 1993), and at times negative (Aharoni, 1986; Caves and Christensen, 1980). In this section, I investigate the nature of privatization's impact on firm performance in Uganda.

Using observed data is displayed in Table 7.3; I test whether privatization influences firm performance. The data set included a total of 15 firms all of which were SOEs before privatization, but at the time of test included two (S=2) state, two mixed (M=2) and eleven (P=11) privatized companies. In Table 7.3, the observed average (mean and median) firm performance of state, mixed and private firms are presented. I carry out two tests: the first involves comparing state, mixed and private firms individually thus state against mixed, state against private, and mixed against private. Second, I also compare the combined state and mixed firms (S+M) against the private firms.

The test results were mixed depending on how state firms were defined. When state and mixed firms were separated and each compared with private firms, all the results were insignificant (See Appendix T.1); but when state were combined with mixed and then compared with private firms, the results became significant (See Appendix T.2).

### *7.2.1.1 Privatization Effect: State, mixed, private firms compared individually*

Taking a total of fifteen firms (n=15) including two state (S=2), two mixed (M=2), and eleven private (P=11), I compared if any of the mentioned categories had an edge over the other in firm performance. In the Table 7.3 are observed values obtained by comparing situations before and after privatization. For instance, the figure -0.6 showed that a percentage reduction of profits by 60 per cent for state firms.

Table 7 3 Ownership & Observed Average Firm Performance of 15 firms before and after Privatization 1986-03

| | | Firm Performance | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| ownership | statistic | APC of ROS median | RPC of ROS median | APC of ROCE median | RPC of ROCE median | RPC of ROS mean | APC of ROS mean | APC of ROCE mean | RPC of ROCE mean |
| S | Mean | -19.7 | -0.59 | -8.1 | -0.71 | -0.62 | -20,1 | -7,70 | -0.71 |
| | N | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| | Std. Dev | 1.41 | 0.04 | 1.97 | 0.17 | 0.02 | 0.70 | 2,26 | 0.21 |
| M | Mean | -115.8 | 240.4 | -13.4 | -8.35 | | -112.4 | -6,60 | -29,7 |
| | N | 2 | 2 | 2 | 2 | | 2 | 2 | 2 |
| | Std. Dev | 174.1 | 336.5 | 10.3 | 9.75 | | 174.3 | 17,5 | 39,9 |
| P | Mean | -5.0 | -0.06 | -39.0 | 0.41 | 0.53 | -0.79. | -50,7 | -0,24 |
| | N | 11 | 11 | 11 | 11 | 4 | 11 | 11 | 11 |
| | Std. Dev | 31.4 | 0.81 | 124.9 | 1.84 | 0.66 | 32.6 | 100,4 | 0.88 |
| Total | Mean | -21.7 | 31.9 | -31.4 | 0.,88 | 0.14 | -18.2 | -39,1 | -4,.4 |
| | N | 15 | 15 | 15 | 15 | 6 | 15 | 15 | 15 |
| | Std. Dev | 66.0 | 123.1 | 106.1 | 4.11 | 0.78 | 66.6 | 87.3 | 14.8 |

Notes: 1) S=state; M = mixed; P = private; 2) TFP are ratios while ROCE and ROS are percentages; 3) Std Dev=standard deviation, N=number of firms, APC=Average performance change, RPC=relative performance change; 4) -0.60/+0.60 means that firms' profitability fell/increased by 60 % before and after privatisation

*Source*: Author's Calculations, 2004

The null hypothesis (Ho) was that there was no difference in performance between state, mixed or private firms (S=M=P). This implied that state, mixed and private firms did equally well. The alternative hypothesis (Ha) was that there was a difference in firm performance between states, mixed or private firms (S≠M≠P). While a significant result would lead to rejection of the null hypothesis of no difference and take up the alternative hypothesis of a difference between state, mixed and private firms' performances; a significant result would uphold the null hypothesis of no difference in performance of mentioned ownership parties.

All the results are shown in Appendix T.1 and no indicators was significant leading to non-rejection of the null hypothesis of no difference in firm performance interpreted to mean that privatization did not bear results or that PSOEs' performance was as poor as SOEs' explained by regulation impact, exclusion of non-PSOEs from sample studied as well as failure to secure capital after privatisation elaborated later on.

*7.2.1.2 Privatization Impact: state and mixed against private firms*

Once again, I took a total of 15 (n=15) firms including, two state (S=2), two mixed (M=2), and eleven private (P=11); but this time combined state and mixed firms and compared them against private ones (see Table 7.4). There was reason for comparison since mean performance for the eleven private firms of 0.45 was higher than -4.53 for the combined state and mixed firms. Once again, the null hypothesis (Ho) was that there was no difference in firm performance before and after privatization arising out of ownership pattern. The alternative hypothesis (Ha) was that there was a difference in firm performance between state/mixed (S/M $\neq$ P) and private firms. The interpretation of results here was as in the first test.

Table 7 4 Ownership effect on firm performance of 15 SOEs/PSOEs before and after privatization 1986-2003

| | Mean of RPC of ROCE statistics | | |
|---|---|---|---|
| Ownership | Mean | Number of Firms (N) | Standard Deviation |
| State & Mixed | -4.53 | 4 | 7.15 |
| Private | 0.45 | 11 | 1.84 |
| Total | -0.88 | 15 | 4.31 |

Notes: 1) RPC=relative performance change; 2) ROCE = retun on capital eomployed; 3) N= number of firms; 4) -0.45/+0.45 means that state firms' profitability fell/increased by 60 % before and after privatization; SOEs= state owned enterprises, PSOEs=privatized state owned enterprises

*Source*: Author's Calculations, 2004

When state were combined with mixed firms and compared against private firms, the test, detected significant difference in firm performance for only one *lone* indicator (RPC of ROCE of median) out of the twelve with p=0.026 and Z=-2.219 (see Appendix T.1). This led to rejection of the null hypothesis of no difference in firm performance among combined state and mixed firms against private ones in this cohort. Instead, the alternative hypothesis of a difference was taken up. The result was interpreted to mean better performance after privatization or that private firms performed better than the combined state and mixed firms as a special case (P >S/M) and therefore supported privatization policy. The lone significant result could have arisen due to either a fall in wage bill or reduced waste after privatisation or both.

First, total wage bill for surveyed 31 PSOEs fell from 14.9 to 9.1 billion shillings, representing 38.9 percentage points, due to several factors including lay-offs, lower salaries for temporary workers and bankruptcy although it was difficult to exactly say how much of these were more responsible for the reduction. Particularly, transport and telecommunications and banking cut their wages in total expenditure by 22.8 and 6.2 percentage points respectively, through layoffs or redundancies and lower wages farvouring improved performance particularly for FDI. Second, the detected improved firm performance could have been due to reduced waste in transport costs that experienced 64.3 % fall from 1.4 to 0.5 billion due to reduced waste usually associated with state ownership as the UBL case shows. Before privatization, Uganda Breweries was losing up to Shs. 60 million (US$30, 000) monthly in transport costs and commissions to big shots in the Breweries itself and influential people in government fraudulently conniving and being among the lorry owners who hired their trucks to the company. For a trip to the city, a Tata lorry owner earned Shs. 81, 000= (US$40) compared to Shs.40, 000= (US$20) for a whole day charged by the Soda company, Pepsi-Cola.[278] While lone significant result arose from fall in wage bill and reduced waste after privatization; the more noted privatization impotency might have been influenced by regulation, exclusion of non-PSOEs particularly in the service sector from the study, and failure to secure capital after privatization.

##### 7.2.1.2.1 *Explaining Privatization Impotency: NTBs/TBs and MFRs*

The nil impact on industrial performance can be attributed to mixed impact of TBs/NTBs regulation on firm performance. The TBs/NTBs impact on firm performance for the protected industrial category of tobacco, beer and beverages, justified for job creation, to enhance investment, and tax revenue contribution to the government treasury; improved firm performance as a result of a protected local market. On the other hand, removal of protective tariffs in the rest of industries after 1992, generally caused industrial decline although this also depended on whether firms controlled a market or not. While firms that controlled a regional market such as ULATI limped on, those that did not closed shop. While NTBs/TBs contradictory policies were responsible for zero impact in the industrial establishment; MFRs caused similar effect in banking.

In service sector, particularly banks cash reserve ratio (CRR) requirement of 10% affected the rate of interest charged by commercial banks because a big portion of their assets did not earn income at the Central Bank. In order to compensate for that loss, they were forced to increase lending margins. Uganda stood alone in the EAC region with the staggering interest rate ranging between 21 and 25 per cent compared to Kenya's between 12 and 16 per cent and Rwanda at 16 and 18 per cent respectively. Businessmen complained that CRR of 10% of total deposits was very high and inconsistent with modern trends and suggested lowering it to levels consistent with low-interest countries such as 3.5% in a bid to lower lending rates. Interest rates were quite high and very few private sector companies realized a rate of return of 25 % to justify borrowing from Uganda's commercial sector. The impact on bank performance was a positive ROS (ROS >0) but negative ROCE (ROCE<0) for most banks implying that while profitability from operations looked healthy (ROS >0), taking additional deposits after privatization turned out loss-making in view of the capital employed (ROCE<0) explained by high CRR that kept most of the deposits redundant at the Central Bank.

Second, despite lack of change by former PSOEs displayed by the profit indicators, the non-profit measures of firm performance such as new volume of investments, product variety, and innovations undertaken particularly in service industry outside the PSOEs showed more successful results arising from privatization and liberalization of the economy implying that poor performance was a problem of PSOEs and not fresh entrants particularly in telecommunications and banking. The contradicting difference in firm performance was not only due to different measures applied but also the fact that the latter included new firms as a result of liberalization such as MTN and CELTEL in telecommunication. Liberalization of the telecommunication sector had attracted new investment by all players to provide essential telecom services explained by underdevelopment[279] and the love for prepaid services, demonstrating the potential for wireless systems in the country. For instance, UTL got a bank loan of $38.5m for its countrywide rollout of GSM (Mango) and CDMA (TelesaverPlus) network.[280] [281]CELTEL, a Dutch company operating mobile phones in thirteen African countries, invested US$50 million (Shs86.5b) in 2004 and US$400 million in both Uganda and the EAC region in general.[282] Lastly, MTN Africa sank US$750 million in thirteen countries in Africa. In addition, there was product variety in telecommunications by fresh entrants MTN and CELTEL, pioneered mobile phones in the country that were lacking. In the banking industry, licensing of new FDI banks introduced the ATM machines as well computer networked branches enabling a customer of a bank to transact business from any branch that was lacking before privatization.

Third and last, failure to access finance jeopardized improved performance after privatization. With exception of firms such as BATU that accessed bank loans, UCWL that secured share capital from the stock exchange market, and KSW, SCOUL and UEB split companies that survived on government guarantees and bailout operations; the majority of PSOEs found themselves into capital difficulties and some closed.

In summary, this sub-section set out to investigate the effect of privatization on firm performance. The results indicated that with the exception of when state firms were combined with mixed firms and then compared with private ones, there was no difference in firm performance between state and private firms. While the lone success was attributed to oppression of workers and reduced waste after privatization; the failure for privatization to deliver was possibly due to regulation that caused conflicting results in the industrial establishment as a result of selective NTBs/TBs protection, exclusion of non-PSOEs particularly in the service sector from the study, and failure to secure capital after privatization.

### *7.2.2 Effect of FDI-Local Ownership on firm performance*

It should be recalled that in chapter one (1), Graham (2000:88) suggested that foreign firms (FDI) may perform better than local ones particularly due to the former's out-sourcing foreign markets, superior goods, processing technologies, superior management skills, and access to markets not possessed by the local firms. In this chapter, I investigate the effect of FDI on firm performance change before and after privatization. In this sub-section, I attempt to investigate whether the observed better performance after privatization could be attributed to either FDI or local ownership. The observed average firm performance is presented in Table 7.5.

#### *7.2.2.1 Effect of FDI Ownership on Firm Performance*

Here, I test whether FDI was associated with the better performance detected after privatization using a total of ten firms (10) divided into two (M+S=2) combined state and mixed and eight (P=8) private firms. While from the table 7.5 it is clear that private firms on average performed better than mixed and state firms, for both indicators, I needed to know whether the difference was statistically significant and hence associated with FDI.

**Table 7 5 FDI Effect on firm performance of 10 firms before and after Privatization 1986-2003**

| Ownership | statistics | Firm performance in % | |
|---|---|---|---|
| | | RPC of ROCE mean | RPC of ROCE median |
| S + M | Mean | -29.7 | -8.35 |
| | N | 2 | 2 |
| | Std. Deviation | 39.9 | 9.75 |
| P | Mean | -0.03 | 0.83 |
| | N | 8 | 8 |
| | Std. Deviation | 0.91 | 2.01 |
| Total | Mean | -5.97 | -1.01 |
| | N | 10 | 10 |
| | Std. Deviation | 18.3 | 5.35 |

Notes: 1) S + M =combined state and mixed firms; P = private firms; N=number of firms
*Source*: Author's Calculations, 2004

The null hypothesis (Ho) was that FDI was not associated with the observed better performance. The alternative hypothesis (Ha) was that FDI was associated with observed better performance after privatization.

The test results indicated in Appendix T.3 reveal a significant difference in firm performance change as measured by RPCs of ROCE mean and median as well as RPCs of ROCE median, all three being z = -2.089 and p=0.044. This led to rejection of the null hypothesis of FDI not being associated with better performance after privatization. Instead, the alternative hypothesis of association was taken up. The result was interpreted to mean that private firms performed better than mixed firms, explained by the FDI. The reasons for superior FDI performance might have included government financial support to FDI after privatisation, underpayment of workers, and superior goods.

Despite privatization and government attempts to pull out of business, the state operated bailout operations to PSOEs, particularly those belonging to three Asian businessmen explained as "strategic intervention in vital sectors generating employment and fighting poverty through helping businesses that generated wealth''.[283] Second, FDI superiority was partly due to underpayment of workers both before and after privatisation. Before privatisation, the workers' conditions in enterprises that had some degree of FDIs or where government held minority shares tended to be free of labour restrictions generally and tended to ignore the idea of collective agreement, fluffing the trade unions and their restrictive working practices. For instance, staff tended to work according to the situation: while the working day was 8-hours in SOEs, staff in FDI firms worked longer hours between 10-12 hours and employee numbers changed depending on the volume of work. After privatization, the new buyers cunningly increased salaries for managerial, technical and clerical staff in agreements (read paper) only but they recruited the staff to high positions as group employees who did not enjoy negotiated terms. This was achieved through laying off more highly paid group employees earning shs. 300, 000= and replaced them with those willing to work for shs. 100, 000= per month, consequently causing falling total wage-bill - although the fall in wages was not uniform. Third, FDI had superior goods as displayed by telecommunications before and after privatisation of UP & TC. While UP & TC provided only landline telephones before, the new entrants introduced mobile phones. In the Banking sector, privatisation of SOEs and licensing of FDI banks caused innovations in terms of introduction of non only ATMs but also computer-networked branches that did not exist before.

The policy implication would, therefore, be to promote FDI. Unfortunately, however, this was not the case during privatization as evidenced by UGMC and ENHAS examples. During privatization, few SOEs were sold to foreigners because of political interference. Government preferred Ugandans to FDI, a situation that tended to contradict FDI promotion efforts as shown in the sale of UGMC and ENHAS. MC's, highest bidder UNGA, a Kenya-based food company, was denied chance to purchase UGMC and instead the SOE was sold to President Museveni's brother on consideration of "Uganda ness" as the awarding criteria. Interestingly, however, Caleb International, the buying company, had used foreign companies, Tiger Oats and a South African company Number One Foods (PTY) Ltd as partners in securing the UGMC purchase.[284] For ENHAS, the firm was[285] sold neither to the highest (Dairo Air Services) at an offer price of US$6.5 million nor to the second highest bidders, South African Alliance Air who bid US$ 4.5 million, citing pre-emptive rights.[286][287]Saleh refuted allegations that he and Kutesa used their political influence to buy the airlines' shares at the give-away price of Shs. 3.375 billion (US$1, 687, 500) when the company had been valued at Shs. 5 billion (US$2.5 m) and Shs. 8 billion (US$4m) by Ernest Young and DFCU respectively.[288] Interestingly, in both cases, when *Ugandan nationalism* was cited, the first family of President Museveni was involved. Secondly, this *nationalism* rotated around very profitable SOEs such as ENHAS, UGMC and UCB. In the case of UGMC, that *Ugandan Nationalism* turned out to be speculation since re-sale took place on the very first day it was transferred. In both cases, the decisions also turned out to be inferior because the new owners lacked capital. While UGMC went into receivership, ENHAS offered an inferior service at Entebbe Airport charging a higher price compared to that offered in Kenya. While FDI managed to influence firm performance after privatization, local ownership did not.

#### *7.2.2.2 Effect of Local Ownership on firm performance*

I tested whether local ownership was associated with the better performance detected after privatization using a total of 5 firms divided into two (P=2) private and three mixed and state (S+M=3) and the test results are displayed in Appendix T.4. All the Mann-Whitney tests results were insignificant for the local cohort leading to upholding the null hypothesis of no association between local ownership - with the earlier observed better performance after privatization. The lack of change in local firms was attributed to failure to acquire finance and poor management.

With the exception of only a local exporter of hides and skins, government refused to bail out other PSOEs sold to local investors such as UAC, UMI Kampala, NYTIL and PAPCO that cried out for help. For instance, UAC needed Shs. 2 billion (US$500, 000) to fund her operations. On three occasions, it was bailed out to a tune of US$3 million (Shs. 3 billion). The fourth time, however, there was no alternative but to sell shares to ENHAS in order to raise the money.[289] Several other PSOEs such as NYTIL, PAPCO and a private local Bank (ICB) solicited for support in vain. While government did not give a reason for ignoring the local investors, the media and opposition politicians had their explanations of the FDI preference to local investor as a political strategy by the National Resistance Movement (NRM) government to entrench herself in power because in a crisis, the FDI were likely to support the government in power in order to protect their investments unlike the local investors that could ally with the opposition to change government. In addition, the opposition politicians argued that the government policy, besides being strategic, was also selfish because President Museveni wanted to impoverish Ugandans so that they could respect him and also be easily governed.

Poor performance of local PSOEs was due to poor management style displayed by lack of change in either objective-setting or sstrategy or both. For instance, there was no observed difference in objective-setting before and after privatization largely due to the remaining unsold 38 out of a total of 146 slated for sale as well as the partial privatizations. In addition, there was no change in terms of strategy explained by capacity problems, colonial history and political appointments that recruited inferior staff, particularly among the partially privatized SOEs already explained. But literature also indicates that besides property rights, sector also influenced privatization outcomes. It is this latter fact that led me to investigate effects of sector (industry/TRSE) on firm performance after privatization.

### *7.2.3 Effect of Sector on Firm Performance*

In chapter one (1), I theoretically argued that Hoj *et al* (1995:2) explain the superiority of services to industry as due to lack of exposure to international competition, strategic advantage, and specific market outlets. Hoj *et al* argued that first, while trade was effective in shaping competition for manufactured goods, many services were not exposed to a high degree of competition.

Therefore, de-regulation and privatization remained key to shaping competition for services and the main elements in structural reform. Second, even if services were exposed to international competition, domestic producers tended to have a strategic advantage over foreign investors such as closeness to market or dominant market position. Third, since services were produced at the same place as they were consumed; international competition might depend on the number of outlets in the specific market. Empirically in this section, I test whether sector (any of industry or TRSE) was associated with the observed better performance after privatization. The observed values for the two sectors of industry and TRSE appear in Table 7.6 and 7.7 respectively.

#### *7.2.3.1 Privatization and Industry*

I performed Mann-Whitney tests over industries stratum (2 mixed (M=2) against 7 private enterprises (P=7)). There was reason to perform the tests because while two measures of RPC of ROCE mean and RPC of ROCE median indicated that private firms performed better than mixed, RPC of ROS median measure showed the reverse.

**Table 7 6 Industry Effect on Firm performance of 9 firms before and after Privatization 1986-03**

| Ownership | Statistics | Firm performance in % | | |
|---|---|---|---|---|
| | | RPC of ROCE mean | RPC of ROS median | RPC of ROCE median |
| M | Mean | -29.7 | 240.4 | -8.38 |
| | N | 2 | 2 | 2 |
| | Std. Deviation | 39.9 | 336.5 | 9.79 |
| P | Mean | -0.31 | -0.27 | -0.02 |
| | N | 6 | 7 | 6 |
| | Std. Deviation | 0.79 | 0.89 | 1.22 |

Notes: 1) M =Mixed firms; P = private firms
Source*:* Author's Calculations, 2004

The null hypothesis (Ho) was that industry was not associated with better performance earlier observed. The alternative hypothesis (Ha) was that industry was associated with better performance observed after privatization.

Here the Mann-Whitney test has detected borderline differences in performance change between mixed and private companies in the parameters "RPC of ROCE mean", "RPC of ROS median" and "RPC of ROCE median."

The test results were borderline significant in the industrial sector [see Appendix T.5] and, like the observed figures in Table 7.6, displayed conflicting (positive and negative) results. The RPC of ROS medians were definitely an error. It can be seen that the RPC of ROS median had p=0.056 with a Z-value of –2.049, while RPC of ROCE mean and median were p=0.071 with Z=-2.0. The results were interpreted to mean that on the margin, industry was not associated with the better performance after privatization. This was interpreted to mean that although figures in cost analysis displayed industrial decline after privatization, this was not statistically significant.

The results did not only contradict the theory but also with earlier cost analysis carried out that had revealed that industrial percentage profitability seemed to have worsened from negative 0.9 before to negative 1.7 after privatization. The nil impact on industrial performance can be attributed to mixed impact of TBs/NTBs regulation on firm performance already explained.

#### *7.2.3.2 Privatization and Trade and Services*

Once again, I investigated whether the Trade and Services sector was associated with better performance identified after privatization using two (2) state and four private firms also displayed in Table 7.7. There was reason to suspect such a relationship because the two (2) SOEs had a consistently lower APC/RPC value than the four (4) private firms in the TRSE strata.

The results were all insignificant, p-value being 0.133 for RPC of ROS mean and median as well as APC of TFP median (see Appendix T.6). This implied that trade and services was not associated with the better performance observed after privatization which was also revealed by cost analysis. This implied that TRSE was not associated with the better performance

**Table 7 7 TRSE Effect on Firm Performance 10 firms before and after Privatization 1986-03**

| Ownership | Statistics | Firm Performance RPC of ROS mean | APC of TFP median | RPC of TFP median | RPC of ROS median |
|---|---|---|---|---|---|
| S | Mean | -0.63 | -0.60 | -0.35 | -0.59 |
| | N | 2 | 2 | 2 | 2 |
| | Std. Deviation | 0.02 | 0.00 | 0.00 | 0.04 |
| P | Mean | 0.53 | 1.97 | 1.13 | 0.29 |
| | N | 4 | 4 | 4 | 4 |
| | Std. Deviation | 0.66 | 2.77 | 1.52 | 0.54 |
| Total | Mean | 0.15 | 1.11 | 0.63 | 0.002 |
| | N | 6 | 6 | 6 | 6 |
| | Std. Deviation | 0.78 | 2.52 | 1.40 | 0.62 |

Note: 1) TRSE = trade & services; 2) 0.66 means 66 % for ROS and ROCE; -/+ means a reduction/ increase in profitability ROS and ROCE

Source: Author's Calculations, 2004

Observed after privatization which was expected anyway and supported by cost analysis that had shown a marginal change after privatization caused not only by CRR regulation but also excluding the non-PSOEs from the study.

## *7.3 Summary*

The chapter set out to investigate the effect of privatization, FDI and sector on firm performance change. The results indicated that with the exception of when state firms were combined with mixed firms and then compared with private ones, there was no difference in firm performance before and after privatization on the one hand and between state and private firms on the other hand. In other words, both comparisons: 1) before and after privatization; and 2) state compared with mixed and private firms yielded similar results of no difference in performance. While the lone success was attributed to falling wage bill as well as reduced waste that cut transport costs; the failure for privatization to deliver was due to: 1) NTBs/TBs selective protection that caused contradicting results in the industrial sector; 2) excluding non-PSOEs from the study that had spectacular non-profit contributions in terms of new investments, product variety and innovations in banking and telecommunications; and 3) failure to access funding after privatisation by most firms. In the exceptional lone case when privatization delivered, FDI presence played a key role explained by not only state subsidies and oppression of workers on the negative side but also superior products such as mobile phones in telecommunication, ATMs and computer networked bank branches in banking that did not exist before privatisation on the positive side.

*Theoretical implications*

Although privatization is said be neutral (Omran 2002; Yallow, 1993); was positive (Boardman and Vining, 1989; Boycko, Schleifer and Vishny, 1993), and at times negative (Aharoni, 1986; Caves and Christensen, 1980); intra-industry opposing effects in Uganda seems to suggest one needed to handle a zero–effect with care since they might hide contradicting effects. In Uganda, there were intra-industry contradiction arising from selective-protection of industries that improved firm performance of the protected but left the unprotected either limping or closed. Basing on evidence; neutral results could hide either intra-sector (trade, services etc) or intra-industry (protected, unprotected) contradictions and therefore might indicate incomplete analyses especially in several firms' case scenario.

# Chapter 8

# 8. Discussion, Conclusion and Recommendations

This chapter re-caps the major issues raised in this study. Being an in-depth study, the summary chapter was thought necessary in order to bring together three investigations concerning the effect of privatization on budget deficits; the effect of privatization on the firm performance; and, the determinants of privatization effectiveness in order to form an opinion on the impact and also develop an assessment of this policy. The chapter has three parts. Part one is the discussion and two is the conclusion and assessment of the privatisation policy. While part three is the recommendation.

## ***8.1.*** *Discussion*

The comparison of theory and empirical evidence in this section does not only show a sharp contrast of theoretical support of fiscal impact and firm performance arising from privatization on one hand, and contradiction of determinants of privatization effectives to improve firm performance on the other hand; but also indicate that out of the several determinants of privatization effectiveness mentioned by Galal *et al*, regulation and motivation played a bigger part than corporate governance in influencing firm performance in Uganda.

### *8.1.1. Fiscal Impact*

Comparing the privatization impact on subsidies, budget deficit and privatization sales proceeds generally contradicted the theory regarding subsidies, but supported taxation and sales proceeds behaviour as found in other least developed countries (LDCs). **a**) While Madsen (1988) argues that subsidies fall with privatization and Rolands (1994) maintains that falling subsidies reduce the budget deficit; the Uganda experience contradicted this theory. In Uganda, subsidies in nominal prices remained more or less the same over the period 1992/3 to 2004/5 explained by bail-out operations, government guarantees to energy sector, and state contracts. In addition, after 1998, central government budget rose although it de-linked from subsidies explained by factors other than subsidies. Uganda evidence showed that in today's Uganda, however, there was no link between subsidies and the central government budget deficit explained by the 'hard budget policy' of government.

Regarding budget deficit, the Uganda evidence again supported the theoretical positions of increasing budget deficits with privatization in majority of LDCs with exception of Mexico that managed to reduce the budget deficit. In the theory, privatization impact on budget deficit shows mixed results in DCs and minimal results in LDCs. In DCs, the deficit increased in Hungary but fell for utility companies in the United Kingdom. In East Germany, SOEs managed to move from the treasury to bank finance (Bos, 1993; Bager, 1993; Yallow, 1993). In Uganda, the budget deficit multiplied four times from Shs. 427.3 to Shs. 1692.9 billion in 1992/3 and 2006/7 respectively. The rise in budget deficit after 1998/99, unlike between 1991/2 and 1997/8, seem not to have been linked to subsidies but other factors.

In a similar manner privatization sales proceeds theory and evidence concurred. While most France was the only country that surpassed privatization targeted sales and the majority of countries did not realize their targets, so did Uganda. Privatization in Uganda failed to achieve the World Bank set sales target of US$500 managing only US$172 m accounting for 35.6 % by end of June 2006 due to assets undervaluation and stripping. Lastly, privatization increased tax from PSOEs being four times as big as before overall with industry exceeding trade and services

### *8.1.2. Firm Performance*

Although privatization theory argued that impact on firm performance was neutral (Omran 2002; Yallow, 1993), positive (Boardman and Vining, 1989; Boycko, Schleifer and Vishny, 1993) and at times negative (Aharoni, 1986; Caves and Christensen, 1980); the Ugandan evidence supports the Omran (2002) and Yallow (1993) views of a zero effect.

With the exception of only when state firms were combined with mixed firms and then compared with private ones, there was no difference in firm performance between state and private firms on the one hand and before and after privatization on the other hand. In other words, both comparisons: 1) 'before' and 'after' and 2) mixed and private firms yielded similar results of no difference in performance. In the exception case, private firms tended to perform better than the combined state and mixed firms that were also supported by FDI, itself a result of financial and other support that were accorded by the NRM government. While the lone success was attributed to falling wage bill as well as reduced waste that cut transport costs; the failure for privatization to deliver was due to: 1) NTBs/TBs selective protection that caused contradicting results in the industrial sector; 2) excluding non-PSOEs from the study that had spectacular non-profit contributions in terms of new investments, product variety and innovations in banking and telecommunications; and 3) failure to access funding after privatization by most firms; and 4) failure for transactions costs to change after privatization arising from opposing falling communication, on one hand; but rising advertising and legal costs on the other hand..

### *8.1.3. Determinants of privatization effectiveness*

While Galal (1994) theoretically argued that in monopoly conditions, the effect of privatization on firm performance was unpredictable and depended on how the public sector was managed and motivated, as well as how the private sector was regulated; the Uganda evidence contradicted with specified management but concurred with the regulation and motivation theories.

#### *8.1.3.1. Corporate governance*

Galal (1994) theoretically argued that in monopoly conditions, the effect of privatization on firm performance was unpredictable and depended on how the public sector was managed and the argument was supported by Frydman *et al* (1999) argued further that for privatization to be effective, management had to change; Ugandan evidence seemed to refute Galal *et al* (1994) views except in a very rare situation when the SOE-maker was wound up.

The results indicated that with the exception of the rare case when the SOE-maker (UDC) was wound-up to pave way from private sector led development; the impact of corporate governance on firm performance was nil. Regarding the rare case, the winding up of UDC with consequent abandoning of SOE-maker role in early 1990s caused both insufficient investments and neglected sectors such as in agro-processing, textiles and mining. Generally, however, corporate governance did not impact on firm performance explained by several factors: 1) although, there was an improvement to the statutory bodies objective-setting due to corporatization that separated commercial from non-commercial activities of the SOEs in preparation for their sale; several SOEs such as J-Vs and 100% retained their old objectives due to the remaining unsold 38 out of a total of 146 slated for sale as well as the partial privatizations. The SOEs that were, therefore, sold had commercial objectives while the non-commercial objectives were shelved with the regulatory bodies. 2) As board operations, however, corporate governance recorded: either no change in strategy - making explained by capacity problems, colonial history and political appointments that recruited inferior staff. 3) There were opposing transaction costs, falling for communications, auditing, and entertainment but increased for advertising and legal. The reduction in communication was explained by reduced waste, competition and fall in over-billing by the UP & TC. On the contrary, while advertising costs increased due to increased competition in the oil trading sub-sector that necessitated Shell to increase advertising; the increased legal charges were due to change from public to private provision of legal services in the banking sub-sector.

*8.1.3.2. Regulation*

While Galal *et al* (1994) theoretically argued that for privatization to be effective it depends on how the private sector is regulated; Ugandan evidence seemed to support this view. The results revealed that the various regulatory tools impact on firm performance was mixed. First, TBs/NTBs impact on the protected category justified for job creation, investment promotion, and tax revenue contribution to the government treasury; improved firm performance because firms were protected from competition. On the contrary, removal of protective tariffs in the rest of industries after 1992 depended on whether a firm controlled a market or not resulting into limping and closing shop respectively. Second, licensing impact on firm performance did not only display marginal gains but also revealed several weaknesses in the tool. The gains included not only innovations in the banking sector through installation of ATMs and computer-networked branches, but also introduced mobile phones that were lacking and new investments in the telecommunication sector although the limited control in the latter hindered cost-cutting innovations such as VOIP. The rest of the licensing failed to deliver competition, product quality, and development explained by monopoly position in former UEB companies, politics in ENHAS, corruption in UNBS and ignored sectors in development. Generally, regulators lacked an agenda for connectivity and conflict resolution mechanism and needed target such objectives. Third, while MCR limited entry policy ensured improved bank performance; CRR impact depended more on structure: whether a bank was a price-taker or maker. While price-takers deteriorated in performance, price-makers improved, explained by passing on the higher interest rates to borrowers. Lastly, price control policy of ignoring the consumer and protecting the producer tended to maintain firm performance in the energy sector but economy-wide impact seemed to favour industries than domestic consumers but threatened international competitiveness.

*8.1.3.3. Motivation*

Galal *et al* (1994) argued that the effectiveness of privatization depends on how the public sector is motivated; the Uganda evidence showed that while motivation generally improved firm performance due to cut in wages and fringe benefits in all firms, the variable could also have either neutral or at negative impacts in special manual sectors that required some skill acquisition and indeed training such as in plantation agriculture in the tea and sugar cane harvesting. While there was general fall in the wage bill arising from changes in salary and fringe benefits subsequently improving firm performance; attempts to reduce job security tended to reduce product quality and subsequently cutting firm profitability in special manual sectors that required some skill acquisition and indeed training such as in plantation agriculture tea and sugar cane harvesting.

Impact of privatization on salary and fringe benefits is best expressed in total wage bill of 31 PSOEs surveyed that fell from 14.9 to 9.1 billion shillings, representing 38.9 percentage points, explained by several factors including lay-offs, lower salaries for temporary workers and bankruptcy although it was difficult to exactly say how much of the wages and redundancy were responsible for the fall in the total wage bill.

The impact of reducing job tenure, however, caused falling product quality in the tea and sugar sub-sectors, pre-empting employers on the advice of trade union management to improve the job tenure length - since sugar-cane and tea harvesting required training that was not favoured by the temporary nature of tenure that these new owners offered.

### *8.2. Conclusion and Assessment*

The study set out to answer the research question: What has been the effect of privatization on budget deficit and firm performance, and what factors have influenced privatization effectiveness to improve firm performance in Uganda? The study was justified in the fact that although three studies existed on the privatization assessment by ROU (1993), UMA (2000) and Ddumba-Ssentamu and Mugume (2001), they tended to ignore corporate governance and regulation and lightly touched motivation. These factors were found by Galal *et al* (1994) to be very important in influencing privatization effectiveness in the monopoly environments particularly in LDCs. As such, the current study contributes to Ugandan privatization assessment not only due to the fact that empirical work contains new micro-level information based on data from official enterprise records from 1986 to 2003, but also includes factors that influenced privatization effectiveness such as corporate governance, regulation and motivation previously either ignored or lightly investigated.

The results are based on a sample of 31 privatized enterprises comprising 22 industrial and 9 trade and service firms selected from a population of 117 firms privatized, chosen on the basis of data availability. Sample size was justified on the basis of similar studies in Kenya by Grosh (1988) and in Malawi by Chirwa (2002) respectively. The Kenya and Malawi studies covered 77 firms over two years (totaling 154) and six firms over five years (totalling 30) respectively. By the same principle, the current study had 31 firms over 18 years from 1986 to 2003 (totaling 527) looked good enough if not ambitious. While privatization was measured by 'before' and 'after'; ownership was measured by whether a firm was state (S), mixed (M) or privately (P) owned. Lastly, firm performance was measured by APC ($p_t - p_{t-1}$) and RPC ($p_t - p_{t-1} / \; p_{t-1}$) of ROS and ROCE profitability. Corporate governance was defined differently as objective setting, board functions and transaction costs. Post-privatization regulation was defined as NTBs/TBs, licensing, minimum financial requirements (MFRs) and price controls. Data was analyzed using Whitney-Man U non-parametric methods. Firm-level data from company records was collected mostly from the Ministry of Finance, Planning and Economic Development (MOFPED), libraries and the firms themselves during the last quarter of 2002 and the entire 2003. I employed four (4) research assistants to help in the collection of data. The four assistants were chosen on knowledge in accounting. I also interviewed trade unions between March and early May 2006. Company records were considered more reliable than interviews that harboured value judgments.

Analysis was by both cost analysis and non-parametric methods. A Statistical Analytical package for Scientists (SAS) to carry out Kolmogolov-Smirnov and Shapiro-Wilks non-parametric tests on the data set in the appendix was used in chapters 5 and 7. The non-parametric method was justified on nature of distribution of data as well as measurement of variables. With the exception of ROS, the distributions of most firm performance indicators were non-normal and there was no means of cleaning data any further. In addition, most variables such as ownership, privatization, regulation, and motivation could not be quantified in better ways other than nominal and hence the non-parametric analysis.

The fiscal impact of privatization looks at expenditure and revenue. While expenditure was measured by subsidies on one hand; taxes from PSOE and sale proceeds from divestiture defined revenue on the other hand. The findings revealed that the fiscal impact of privatisation was mixed: such as leaving the subsidies in nominal terms more or less the same from the period 1992/3 to 2004/5 explained by bail-out operations, government guarantees to energy sector, and state contracts. In today's Uganda, however, there was no link between subsidies and the central government budget deficit explained by the 'hard budget policy' of government. Secondly, privatization increased tax from PSOEs being four times as big as before overall with industry exceeding trade and services. Lastly, privatization failed to achieve the World Bank set sales target of US$500 managing only US$172 m accounting for 35.6 % by end of June 2006 due to assets undervaluation and stripping.

The effect of privatization on firm performance change results indicated that with the exception of when state firms were combined with mixed firms and then compared with private ones, there was no difference in firm performance between state and private firms on the one hand and before and after privatization on the other hand. In other words, both comparisons: 1) 'before' and 'after' and 2) mixed and private firms yielded similar results of no difference in performance. While the lone success was attributed to falling wage bill as well as reduced waste that cut transport costs; the failure for privatization to deliver was due to: 1) NTBs/TBs selective protection that caused contradicting results in the industrial sector; 2) excluding non-PSOEs from the study that had spectacular non-profit contributions in terms of new investments, product variety and innovations in banking and telecommunications; and 3) failure to access funding after privatization by most firms. In the exception case, private firms tended to perform better than the combined state and mixed firms that were also supported by FDI, itself a result of financial and other support that were accorded by the NRM government.

### *8.2.1. Theoretical Implications*

#### *8.2.1.1. Fiscal Impact of Privatization*

Although popular belief had it that SOEs in red were the some of the major causes of budget deficits, de-linking of the subsidies from budget deficits in 1998/9 seemed to suggested that, in a way, SOEs partly financed the government activities in general and budget deficits in particular. In Uganda, after de-linking subsidies from budget deficits, the latter started rising steeply after 1998/9, seeming to suggest that although there might have been other causes such as import price swings, falling international prices for major exports such as coffee and inflation in donor countries, SOEs' impact could not be completely ruled out as possible causes. This tended to suggest that SOEs partly subsidized or financed budget deficits.

#### *8.2.1.2. Privatization and firm performance*

Although privatization is said be neutral (Omran 2002; Yallow, 1993), is positive (Boardman and Vining, 1989; Boycko, Schleifer and Vishny, 1993), and at times negative (Aharoni, 1986; Caves and Christensen, 1980); intra-sector and intra-industry opposing effects in Uganda seem to suggest one needed to handle a zero–effect with care since they might hide contradicting effects.

In the sectors, services were constant and industry tended to decline. In addition, there were also intra-industry contradicting effects arising from selective-protection of industries that improved firm performance of the protected but left the unprotected either limping or closed shop. In summary, basing on Uganda evidence; neutral results hid either intra-sector (trade, services etc) or intra-industry contradictions (protected, unprotected) and might indicate incomplete analysis especially in several firms considered.

#### *8.2.1.3. Theoretical* Implications: *Corporate governance and firm performance*

While Galal *et al* (1995) argue that privatization effectiveness depends on corporate governance; Uganda's evidence tended to refute this argument and argued that withth exception of when the SOE-maker (UDC) wound-up corporate governance impact on firm performance was neutral. First, although privatization improved objective setting of some statutory SOEs, there remained more PSOEs such as J-Vs and 100 % state owned that did not change their objectives. Privatization that also used corporatization as a tool separated commercial from non-commercial activities of the SOEs in preparation for their sale and thereby improving objective-setting. SOEs were, therefore, sold with commercial objectives while the non-commercial objectives are shelved with the regulatory bodies, suggesting that the private sector was not necessarily better than the public sector but just differed in objectives. Second, corporate governance may not record any change in firm performance due to a failure to strategize or monitor PSOEs especially where the state still maintained minority shareholding but still wielded controlling interest. This could be due to either general lack of capacity due to colonial past that might have discouraged training local businessmen in management sciences such as strategic management or just political appointments that could not sack their inferior kinsmen. In this scenario, there would be no difference between public and private sector but the solution would not be following a mixed economy but rather emphasizing private sector discipline in recruitment and also training. Third and last, changes in corporate governance may negatively impact on firm performance due to a rise in advertising and legal costs themselves deriving from competition and industry under consideration after privatization respectively, suggesting a possible relationship between structure and the nature of business that is privatized on the one hand and corporate governance on the other hand. To begin with, privatization was likely to increase advertising costs if competition was allowed in sectors that previously used to enjoy a monopoly situation. The assertion, however, has the limitation of a lone case - only one PSOE, Shell Limited, stepped up its advertising costs.

Practically, unless SOEs were either sold to FDI or local firms contracted management, unlike Galal *et al* (1994) assertions, it was unlikely that corporate governance would improve firm performance for several reasons. First, if improved objective-setting was relied upon to improve firm performance, it would be defeated by the fact that the number of SOEs that also acted as regulatory bodies was bound to be a small fraction of total SOEs giving limited impact. Second, improved PSOE strategies if they were not out-sourced required not only monitoring and evaluation but also strategic management training that had to be inculcated in the minds of new managers first in order to expect any change. Third and last, like objective-making, transaction costs could either form a very small percentage of total costs to be relied upon to change firm performance or could have opposing each other and therefore cancel out.

*8.2.1.4. Theoretical* Implications**:** *Regulation and firm performance*

While Galal *et al* (1994) argue that for privatization to be effective it depends on how the private sector is regulated; Ugandan evidence seemed to suggest that this is true only for manufacturing industry and not all enterprises. While regulation is important in influencing firm performance in manufacturing as a result of opening up, it was not the case for the service sector whereby, in order to come up with better performance, competition was allowed.

In manufacturing industry, selective protection in names of NTBs/TBs effectively influenced firms in a mixed manner. Firms in tobacco, beer and other beverage industries that were protected by NTBs/TBs in order to encourage new investments, employment and because of their tax contribution to the government treasury managed to improve their performance to the extent of even breaking into exporting to regional markets. In the rest of industries where selective protection did not take place, however, the performance of these firms depended more or less on whether a firm controlled a market or not. This was because opening up also meant surrendering the local market to cheaper imports. Firms that used to thrive on local markets such as NYTIL closed shop while those that managed to break into regional markets limped on. Hence NTB/TBs regulation effectively influenced firm performance in manufacturing. This was not the case in services.

In the service sector, it took competition (more than just regulation) to bring results in both banking and telecommunications. In these sectors, allowing in new players did not only lead to innovations such as introduction of ATMs and computer-networked branches in banking but also caused a variety of products to be produced such as mobile phones that were lacking in the country and also brought fresh investments in the telecommunication sector that was under-funded. This also meant that for meaningful results in the services sectors that suffered from under-funding, effectiveness after privatization was more successful if competition was allowed than mere de-regulation.

*8.2.1.5. Theoretical* Implications: *Motivation and firm performance*

Comparing the three motivation types of wages, benefits, and job-security offers interesting lessons in manual jobs that also required some skills. In the lowest paid tea and sugar cane plantations sector, while wages and fringe benefits fell due to retrenchment of more highly paid and replaced them with relatively lesser paid could boost firm profitability; the bottom line to this labour exploitation was determined by adjusting job security. On the contrary, attempts to lower job tenure to lesser permanent levels threatened and indeed affected product quality, sales revenues and firm performance negatively forcing management to reach some agreements with the trade unions. The explanations of impact on firm performance lay in the fact that while laid-off people left and were replaced by new ones who accepted lower wages and fringe benefits, and thereby not affecting worker satisfaction, lower job security attracted and favoured untrained staff that led to sub-standard work hurting product quality and the firm's revenue base.

Galal *et al* (1994:12) also argued that in uncompetitive markets, effectiveness of privatization depended on how the private sector is motivated; while cutting wages and fringe benefits through layoffs and fresh recruitment could boost profitability, reducing job tenure in manual jobs that required training would harm sales revenues. This would tend to suggest that in the lowest paid industries that also used manual skills, cutting wages and fringe benefits through layoffs and fresh recruitment could boost profitability; but the bottom point was increasing temporariness in jobs that required training would harm sales revenues and profitability and thereby put a limit to how motivation would be manipulated to improve firm performance after privatization.

### *8.2.2. Assessing Privatization in Uganda*

Privatization in Uganda is a success or a failure depending on the criteria or objective to apply. First, if de-linking subsidies from the central government was the criteria, then privatization was a success. After 1998/9, government successfully de-linked subsidies from budget deficit. Thereafter, budget deficit increased but subsidies remained more or less the same. Second, if higher profits to the now privatized firms were the criteria, privatization was a failure. The profitability of industrial companies had decreased, whereas the profitability of trade and service companies remained constant. Third, if better working conditions for employees were the criteria, privatizations was a success for the active labour force who had obtained higher salaries. Alternatively, the laid off personnel got a raw deal in terms of lay off packages. So in terms of employment rates, privatization was a failure.

## *8.3. Recommendations: Future Research*

Although, the primary objective was to investigate the effect of management, motivation on firm performance quantitatively, it was not possible to do it for lack of suitable quantitative measures for these variables. I ended up assessing the impact qualitatively and, as such, I recommend that for a complete understanding of privatization in Uganda, further studies are needed to investigate the effect of management, structure, motivation on firm performance using quantitative, non-categorical measures. I recommend that future studies should quantify corporate governance, regulation, and motivation using the bi-polar and summative Rensis Likert scale (1932).

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## Questionnaire 1 a

### General Enterprise characteristics

1. Name of Enterprise…………Postal address............
   Fax..............................................

E-Mail...............................Telephone..........................Mobile......................................

Location of enterprise...........................................Town(s)............................

2. What structures best describe your business? (Tick)

Public company (…), Private… (…), Partnership (…), Sole Proprietorship (….), Individual (….), mixed government & private (…), Parastatal (…).

3. How best do you describe your enterprise?

Parastatal (100 % owned by government),
Joint venture (minority government shares 50% -),
Joint venture (majority government shares 50% +),
Purely private

4. What is the current share holding of the business? (Fill in)

a) Government…………..Private…………………
b) Local. …………………Foreign………………..

5. When was the business privatized? ……………………

6. What sector do you operate in? (Tick)

Industry (Mining & Quarrying, Energy, non-agro-processing manufacture);
Agro-Processing;
Commerce (Trade, Transport, communication, banking & insurance, warehousing);
Services?
Construction.

7. List the major goods, which your business produces?…………………………….

8. How many people does your firm employ? (Tick) Micro (1-5); Small (6-20);

Medium (21-50); Large (51-100); Very Large (100+)

### Public-Private Relationship

9. List all enterprises, which supply you with raw materials…………………………

10. From which country does your enterprise buy your major raw material?…………

11. To what country and company do you sell your major product (s) or output?……

12. Where do you sell your products? (Tick)
Foreign market………, Local market………, both local and foreign
13. a) Has your enterprise done work together with government or a government body? Tick) Yes No
b) If yes, please describe the nature of work…………………………………………

14. Who are the buyers of your goods or services? (Tick) Government( ) Private sector ( ), Both government and Private ( )

15. What proportion of your goods or services does the government buy/use?

16. Which of these supports do you get from government? (Tick)

| | |
|---|---|
| Industrial Land | ( ) |
| Credit | ( ) |
| Subsidy | ( ) |
| Tariffs protection | ( ) |
| Guarantee of monopoly market | ( ) |
| Inputs | ( ) |
| State contracts | ( ) |
| Guarantee of capital/loan | ( ) |

Others (Specify)………………………………………

17. Do any of your directors work in government? (Tick) Yes. No…………….
If Yes, as what? (Tick) LC1 LC2 LC3 LC5
Civil servant others (Specify)………………

18. a) Has government or a government Body ever sub-contracted your enterprise? (Tick) Yes No

b) If yes, please describe the work……………………………………………

19. a) Has your enterprise subcontracted government or a government body to do any task for you? (Tick) Yes No

b) If yes, please describe the work……………………………………………

20. Where do you get information about developments in your business? (Tick)
i. Private Newspaper or radio
ii. Government Newspaper or radio
iii. Business Association (UMA, UEPC, UNCC, UNFA etc)
iv. Internet
v. Trade Fares

vi. Head office abroad
vii. Trade Journals
viii. Trade association meetings
ix. Informal newsletters
x. Trade fares.
xi. Others
(Specify)……………………………………………………………

**Obstacles to Industrialization**

21. What were your costs for the year 2001 in million shilling?
Raw materials…………… Taxation………… wages…………
Transaction costs………… loans Interest… ………Dividends………………
Profits/losses for the year……… Total costs…………………………………
Total revenue……………………………………

22. Indicate how SERIOUS the listed problem is to your enterprise by ticking (x) whereby 1=no obstacle; 2=small problem; 3=moderate problem; 4=big problem; 5=severe obstacle.

| Item | Score | | | | |
|---|---|---|---|---|---|
| Problem to the enterprise | 1 | 2 | 3 | 4 | 5 |
| Taxes | | | | | |
| Infrastructure | | | | | |
| Market | | | | | |
| Difficulty of penetrating the foreign market | | | | | |
| Competition from imported second hand goods | | | | | |
| Limited local market | | | | | |
| Competition from smuggled goods | | | | | |
| Competition from imported goods | | | | | |
| Corruption by the government officials | | | | | |
| High interest on loans/ advances | | | | | |
| Lack of person to borrow from | | | | | |
| Economic policy uncertainty | | | | | |
| Procurement of inputs/ | | | | | |
| Labour market | | | | | |
| Business support services | | | | | |
| Trade Regulations/Licensing | | | | | |
| Healthy requirements | | | | | |
| Eviction from business premises | | | | | |
| Poorly trained labour force | | | | | |
| Low production in mining, fishing, and mining | | | | | |
| Insufficient and irregular supply of raw materials | | | | | |
| International Price swings of primary products | | | | | |
| Import price changes (oil) | | | | | |
| Demands for higher wages | | | | | |
| Foreign Exchange | | | | | |

23. What solutions do you suggest to solve each of the problems enumerated above?
24. How has you enterprise been solving the problems in Question 21?

25. Rank in order of importance (from the biggest =1 to the smallest=9) the problems you face in the business
a) Taxation ( )
b) Inadequate and irregular supply of raw materials ( )
c) Foreign exchange ( )
d) Limited local market ( )
e) Difficulty of penetrating the foreign market ( )
f) Corruption by the government officials ( )
g) High cost of capital ( )
h) Poorly trained labour force ( )
i) Foreign Exchange ( )

26. If the problems you have enumerated are not solved, what will you do? (Tick):
Reduce capacity or close; Maintain capacity, Expand capacity; Restructure

27. Indicate how SERIOUS the listed infrastructure problem is to your enterprise by writing the appropriate number where: 1=no obstacle; 2=small; 3=moderate; 4 =big; 5=severe.

| Item | Score | | | | |
|---|---|---|---|---|---|
| Obstacle to the enterprise | 1 | 2 | 3 | 4 | 5 |
| Lack of Land or space | | | | | |
| Power breakdown | | | | | |
| Power fluctuation | | | | | |
| Telecommunication | | | | | |
| Water supply | | | | | |
| Waste disposal | | | | | |
| Industrial waste disposal | | | | | |
| Commercial transport | | | | | |
| Roads | | | | | |
| Railway transport | | | | | |
| Ports and shipping | | | | | |
| Air Freight services | | | | | |

28. Indicate how serious the listed infrastructure problem is to your enterprise by writing the appropriate condition: where 1=not obstacle, 2=small problem, 3=moderate problem, 4=big problem, 5=severe problem.

| Infrastructure Obstacle | Score | | | | |
|---|---|---|---|---|---|
| Lack of Land or Space | 1 | 2 | 3 | 4 | 5 |
| Power breakdown | | | | | |
| Power fluctuation | | | | | |
| Telecommunication | | | | | |
| Water supply | | | | | |
| Waste disposal | | | | | |
| Industrial waste disposal | | | | | |
| Commercial transport | | | | | |
| Roads | | | | | |
| Railway transport | | | | | |
| Ports and shipping | | | | | |
| Air Freight services | | | | | |

29. Indicate how your enterprise is solving the problem stated

| Infrastructure Obstacle | Copying mechanism |
|---|---|
| Lack of Land or Space | |
| Power breakdown | |
| Power fluctuation | |
| Telecommunication | |
| Water supply | |
| Waste disposal | |
| Industrial waste disposal | |
| Commercial transport | |
| Roads | |
| Railway transport | |
| Ports and shipping | |
| Air Freight services | |

Suggest a possible solution to the indicated problem

| Infrastructure Obstacle | Solutions |
|---|---|
| Lack of Land or Space | |
| Power breakdown | |
| Power fluctuation | |
| Telecommunication | |
| Water supply | |
| Waste disposal | |
| Industrial waste disposal | |
| Commercial transport | |
| Roads | |
| Railway transport | |
| Ports and shipping | |
| Air Freight services | |

30. a) Would you wish to expand your activities? Yes No.

b) If yes, please, give a brief description of any specific objectives of the capital expansion proposed.........................................................................................................

c) What is your estimated capital cost of the proposed new project in Shillings?

Land and Buildings…………………………………………………….

Plant and Machinery…………………………………………………….

Other items to be purchased…………………………………………

Working capital…………………………………………………………

Others (Specify).…………………………………………………….

Total…………………………………………………………………….

c) How do you plan to obtain this capital?

| Item | Amount |
|---|---|
| Retained profits and depreciation | |
| Partners' contributions | |
| Shares | |
| Bonds | |
| Bank Loans and Overdrafts | |
| Directors loans | |
| Mortgages | |
| Trade credits | |
| Hire-purchase | |
| Others (specify)... | |
| Total | |

e) Have you been able to obtain the financing you want? Yes No
If Yes, from what sources have you been able to satisfy your need for finance?...........

f) If not, describe the attempts you have made..............................................................
g) Have you looked for any advice on how to finance your business? Yes No
If yes, from where?.........................................................................................
f) What interest would you be able to pay on the loans/advances?.................................
g) What do you think is a fair rate of interest for your business?..................................

**Post Privatization Performance**

31. Do you have competitors in your business? Yes………………No…

32. What percentage of the market do you control?…………………………

33. What changes have you undertaken since you purchased the enterprise? (Tick).

Introduced new products in our old markets (product development) ( )
Introduced new products in new markets (diversification) ( )
Selling our old product in markets (market development) ( )
Increased output of our old product for sale in old markets ( )
Others (Specify)………………………………………………………… ( )

34. Tick, the right number box for every question where: 1=increased; 2=decreased; 3=same to the following variables.

| | 1 | 2 | 3 |
|---|---|---|---|
| Capacity utilization | | | |
| Capital | | | |
| Markets | | | |
| Re-invested profits | | | |
| Employees | | | |

35. a) Since privatization, our enterprise has transferred this activity to the private sector (tick).

| Activity | Yes | No |
|---|---|---|
| Some Production process | | |
| Some distribution process | | |
| Planning | | |
| Regulation | | |
| Mediation of conflict between employers and employees | | |

36. a) Since privatization, our objectives have changed. Yes No
If yes, please list the new objectives………………………………………………
37. What is your projection/expectation of Uganda business environment? (Tick).
1) Improve 2) remain unchanged 3) Deteriorate 4) I cannot tell
38. Would you say you face 1) strong competition, 2) moderate competition, 3) no competition?

**Motivation**

39. What is the total number of people employed before and after privatization?

| Item | Before | Present |
|---|---|---|
| Unskilled (primary education or less) | | |
| Skilled? | | |
| Managerial and professional staff | | |
| Total | | |

**Management and Regulation**

39. State the capital structure of your enterprise for year ending 2002 (fill in million shillings).
Ordinary shares…………Preferential shares…………
Reserves (Premium)……………………Reserves (Revaluation)………
Retained Profit (Year 2001)……………Long Term Loans (Over 5 years)……
Short-term loans (less than 5 years)……….Others……………………
Total………………………………………………..

40. After privatization, **THESE** (tick) have changed:
Directors; Company secretary; Objectives; Finances;
Auditing; and Staffing.

41. (a) Since privatization our **objectives** have changed (tick) Yes No

(b) If yes, to the above question, list the new Objectives of your enterprise…

42. What plans do you have for your business in future? (Tick)
Reduce capacity, Close, Maintain capacity, Expand capacity

43. Do you keep books of accounts? (Tick) Yes No
We request you to please attach audited accounts including balance sheets and profit and loss accounts and Annual Report from 1986 to 2002

## Questionnaire 1 b

Name of Company……………………Local/FDI……………..Date
Ownership…………………(S, M, P) ……………..
Sector………………………
Date Privatized……………

| | 1986 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PBIT | | | | | | | | | | | | | | | |
| Sales | | | | | | | | | | | | | | | |
| costs | | | | | | | | | | | | | | | |
| CE | | | | | | | | | | | | | | | |
| ROS | | | | | | | | | | | | | | | |
| ROCE | | | | | | | | | | | | | | | |
| TFP | | | | | | | | | | | | | | | |
| **Costs** | | | | | | | | | | | | | | | |
| Interest | | | | | | | | | | | | | | | |
| Materials | | | | | | | | | | | | | | | |
| Wages | | | | | | | | | | | | | | | |
| Utilities | | | | | | | | | | | | | | | |
| Transport | | | | | | | | | | | | | | | |
| Overheads | | | | | | | | | | | | | | | |
| Taxation | | | | | | | | | | | | | | | |
| Profit/loss | | | | | | | | | | | | | | | |
| Total | | | | | | | | | | | | | | | |
| **TCosts** | | | | | | | | | | | | | | | |
| Transport | | | | | | | | | | | | | | | |
| Communication | | | | | | | | | | | | | | | |
| Advert & Prom | | | | | | | | | | | | | | | |
| Monit & Audit | | | | | | | | | | | | | | | |
| Legal Charges | | | | | | | | | | | | | | | |
| Entertainment | | | | | | | | | | | | | | | |
| **Total** | | | | | | | | | | | | | | | |

## Appendix 1 Table of Dates and Buyers of Privatised Enterprises:

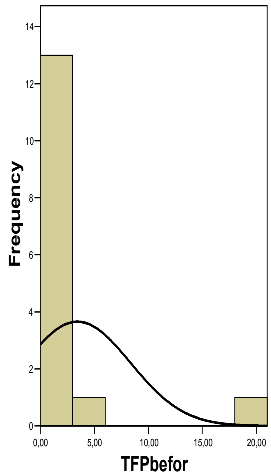
| No. | Enterprise | Buyer | Date |
|---|---|---|---|
| 1 | Uganda American Ins. Company | American Life Insurance Co. | Nov. 1992 |
| 2 | East African Distilleries | International Distillers & Vintners | Nov. 1992 |
| 3 | Shell (U) Ltd. | Shell Petroleum Company Ltd. | Dec. 1992 |
| 4 | Lake Victoria Bottling Co. Ltd. | Crown Bottlers (U) Ltd.- | Feb. 1993 |
| 5 | Uganda Securico Ltd. | Securiko (u) Ltd | Aug 1993 |
| 6 | Agricultural Enterprises Ltd. | Commonwealth Development Corporation (James Finlays of UK. | Oct. 1993 |
| 7 | Uganda Tea Corporation | Metha Group | May 1994 |
| 8 | Steel Corporation of East Africa Ltd. (SCEWA) | Madhvani Group | May 1994 |
| 9 | Blenders (U) Ltd. | Unilever Overseas Holding BVC | Aug 1994 |
| 10 | Hotel Margherita | Reco Industries Ltd. | Aug 1994 |
| 11 | White Horse Inn | Kabale Development Company Ltd-Dr. Suruma, | Aug 1994 |
| 12 | Tumpeco | GM Company Ltd.-Gordon Wavamunno? | Aug. 1994 |
| 13 | Mt. Moroto Hotel | Kodet International | Nov. 1994 |
| 14 | Rock Hotel | SWISA Industries Ltd. | Nov. 1994 |
| 15 | Uganda Cement Industry | Rawals Group of Industries | Dec. 1994 |
| 16 | Lira Hotel | Showa Trade Company Ltd-Sam Engola ?. | Jan. 1995 |
| 17 | Soroti Hotel | Speedbird Aviation Services Ltd-MP Soroti Municipality. | Jan. 1995 |
| 18 | Acholi Inn | Ms. Laoo Ltd. | May 1995 |
| 19 | Hilltop Hotel | Three Links Ltd-Hon. Moses Kigongo?. | May 1995 |
| 20 | Mt. Elgon Hotel | Bugishu Cooperative Union | May 1995 |
| 21 | White Rhino Hotel | Dolma Associates Ltd. | May 1995 |
| 22 | Uganda Fisheries Ent. | Nordic- African Fisheries Company (Path Iceland) | May 1995 |
| 23 | Ug. Leather $ Tanning Industry | IPS (U) Ltd. | July 1995 |
| 24 | Uganda Meet Parkers Ltd. (K'la Plant). | Uganda Meat Industries Ltd. | Aug. 1995 |
| 25 | Lake Victoria Hotel | Windsor Ltd. | Aug. 1995 |
| 26 | Mweya Safari Lodge | Madhvani Group | Aug. 1995 |
| 27 | Tororo Cement Works | Corrugated Sheets Ltd. | Oct. 1995 |
| 28 | Winits (U) Ltd. | EMCO Works Ltd. | Oct. 1995 |
| 29 | Uganda Hardware Ltd. | Management | Oct. 1995 |
| 30 | Uganda Motors Ltd. | Management | Nov. 1995 |
| 31 | Uganda Hire Purchase Company | Tadeo Kisseka | Nov. 1995 |
| 32 | K'la Auto Centre (Gomba Motors) Ltd. | Management | Nov. 1995 |
| 33 | Republic Motors | Rafiki Trading Company | Dec. 1995 |
| 34 | Total (U) Ltd. | Total Outre Mer | Mar. 1996 |
| 35 | African Textile Mills (ATM) | R. S. Patel | Mar. 1996 |
| 36 | NYTIL | Picfare Ltd. | Mar. 1996 |
| 37 | Printpak (U) Ltd. | New Printpak (U) Ltd. | May 1996 |
| 38 | Agip (U) Ltd. | Agip Petroli International | May 1996 |
| 40 | Fresh Foods Ltd. | Eddie & Sophie Enterprises Ltd. | May 1996 |
| 41 | Foods & Beverages Ltd. | James Mbabazi | May 1996 |
| 42 | Uganda Pharmaceuticals Ltd. | Vivi Enterprises | July 1996 |
| 43 | Kibimba Rice Company Ltd. | Tilda Holdings Ltd. | Sept. 1996 |
| 44 | Motor craft & Sales Ltd. | Andami Works Ltd. | Sept. 1996 |
| 45 | Stanbic (U) Ltd. | SBIC Africa Holdings Ltd. | Dec. 1996 |
| 46 | ITV Sales Assets | Roko Construction Ltd. | Dec. 1996 |
| 47 | Uganda Grain Milling Company (UGMC) | Caleb's International | Dec. 1996 |
| 48 | Masindi Hotel | Kabasekende | Dec. 1996 |
| 49 | Ug. Bags & Hessian Mills Ltd. | Bestlines (U) Ltd. | Jan. 1997 |
| 50 | Comrade Cycles (U) Ltd. | Uganda Motors Ltd. | Jan. 1997 |
| 51 | Uganda Industrial Machinery Ltd. | F.B. Lukoma | May 1997 |
| 52 | Uganda Crane Estates Ltd. | Buganda Kingdom | Jun. 1997 |
| 53 | Uganda Commercial Bank | Ms. Westmont Asia plc | Oct. 1997 |
| 54 | Uganda Meat Parkers- Soroti | Teso Agricultural Industrial Co. Ltd. | Oct. 1997 |
| 55 | Lango Development Corporation | Sunset International Ltd. | Nov. 1997 |
| 56 | Barclays Bank (U) Ltd. | Barclays Bank Plc | Sep. 1998 |
| 57 | Chillington Tool Company (U) Ltd. | | Jun. 1998 |
| 58 | Associated Paper Industries Ltd. | | May 1998 |

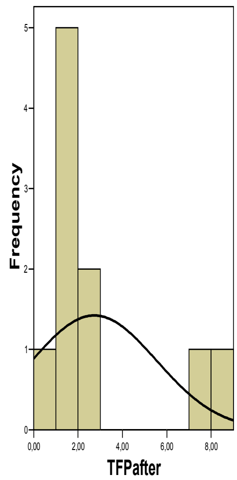
**Appendix 2 Firms Liquidated/Struck off the Register of Companies**

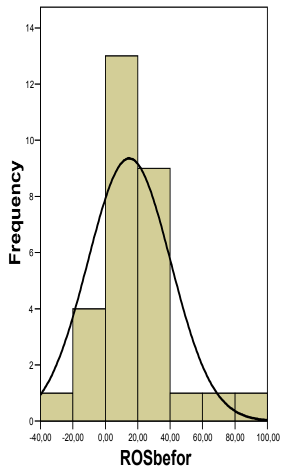
| No | Enterprise | No | Enterprise |
|---|---|---|---|
| 1 | Agro- Chemicals | 15 | Uganda Toni Services |
| 2 | Domestic Appliances | 16 | Wolfram Investment Ltd. |
| 3 | Hamilton | 17 | Ugadev Bank Ltd. |
| 4 | Itama Mines | 18 | Uganda Transport Co. |
| 5 | Lebel (EA) Ltd. | 19 | Peoples Transport Co. |
| 6 | Sukulu Mines | 20 | Uganda General Merchandise Ltd. |
| 7 | TICAF | 21 | Intra Africa Traders |
| 8 | Uganda Air Ltd. | 22 | Lint Marketing Board |
| 9 | Uganda Aviation Services | 23 | Paramount Manufacturers |
| 10 | Uganda Fish Marketing | 24 | Toro Development Corporation |
| 11 | Uganda Farm Machinery Ltd. | 25 | Ugandev Properties Ltd. |
| 12 | Uganda Tourism Development Corporation | 26 | Uganda Investments Ltd. |
| 13 | Uganda Wildlife Development Co. | 27 | Ugadev Holdings Ltd. |
| 14 | Gobbot (U) Ltd. | | |

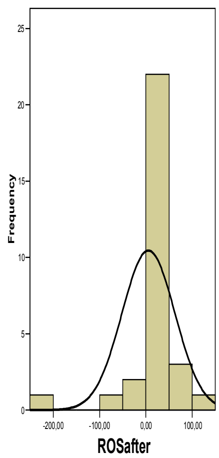
*Source*: PERDS, 1993.[290]

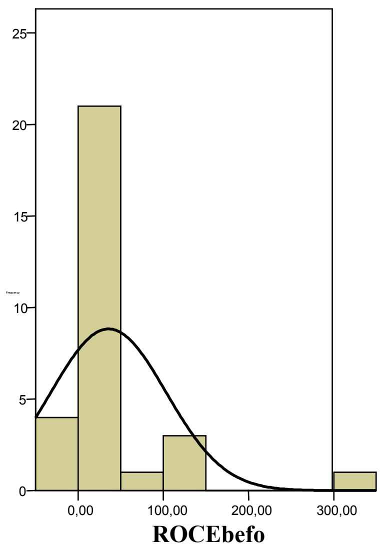
## Appendix 3 Histograms for distributions of mean TFP, ROS and ROCE

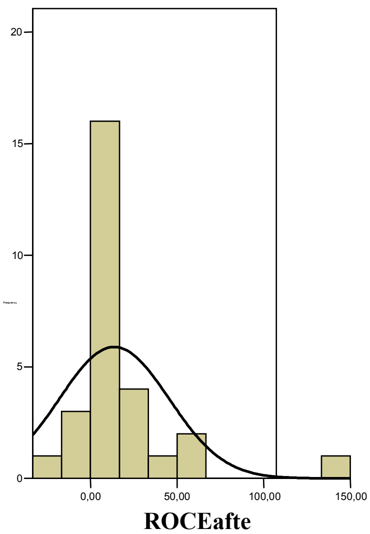
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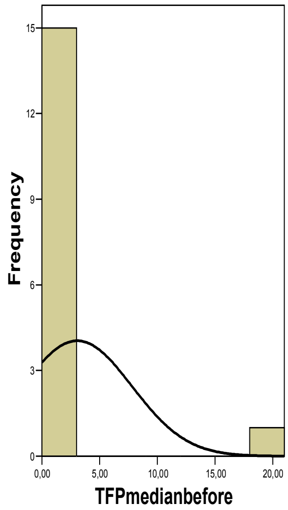
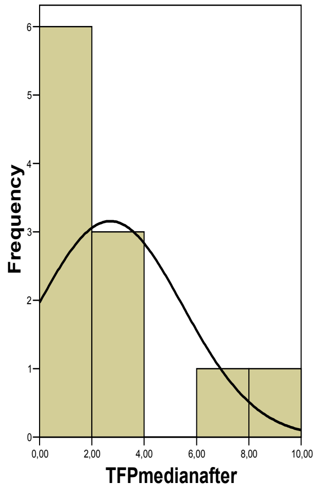
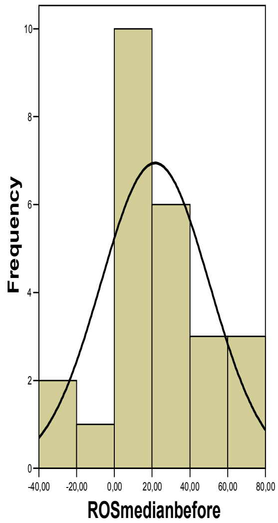
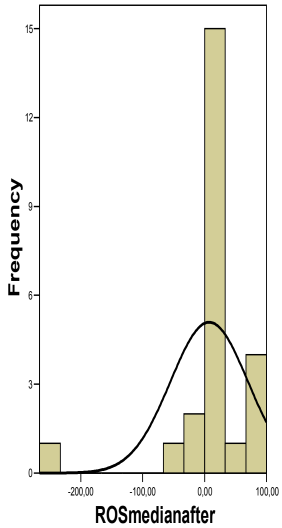
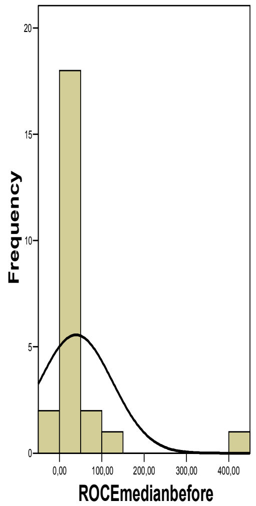
## Appendix 4 Histograms for distributions of median TFP, ROS & ROCE

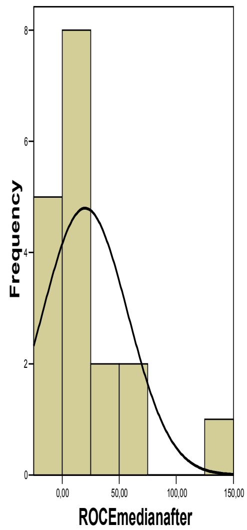


## Appendix 5: Post and Pre-Privatization Mean Performance in Uganda

| Before Privatization | After Privatization |
|---|---|
| **Beverages, Tobacco and Beer** | |
| ROS = 22.4 %, N=27, | ROS = 7.8 %, N=11 |
| ROCE =61.2 % | ROCE= 8.1 % |
| TFP =2.5 | TFP =n/a |
| **Food** | |
| ROS = 18.4 %, N=19, | ROS = 1.5 %, N=12, |
| ROCE = 140.6 % | ROCE =3.9 % |
| TFP = 2.2 (8.3) | TFP =1.06 |
| **Textiles and Apparels** | |
| ROS = -3.9 %, N=12, | ROS = -239.9%, N=1, |
| ROCE =3.6 %, N= | ROCE = -6.5 % |
| TFP = 1.8 | TFP = 0.33 |
| **Metal** | |
| ROS = 32.9 %, N=8, | ROS = -74.7%, N= 10, |
| ROCE =41.2 % | ROCE = -10.6 % |
| TFP = 1.4 | TFP = 1.3 |
| **Pharmaceuticals** | |
| ROS = 23.2 %, N=7, | ROS = n/a %, |
| ROCE = 16.9 % | ROCE = n/a |
| TFP = n/a | TFP = n/a |
| **Construction** | |
| ROS = 9.5 %, N=13, | ROS = 21.2%, N=5, |
| ROCE = 14.5 % | ROCE = 11.8 % |
| TFP = 2.0 | TFP = n/a |
| **Energy** | |
| ROS = -0.25 %, N=10, | ROS = 10.7%, N= 1, |
| ROCE =-0.07 | ROCE = 5.7 % |
| TFP = n/a | TFP = 2.2 |
| **Transport and Tele-communication** | |
| ROS = 14.1 %, N=18, | ROS = 21.5 %, N=12, |
| ROCE =9.1 % | ROCE =46.1 % |
| TFP = 1.35 | TFP = 1.0 (4.5) |
| **Banking** | |
| ROS = 52.6%, N=26, | ROS = 78.2 %, N=14, |
| ROCE =56.2 % | ROCE =32.5 % |
| TFP = 2.9 | TFP = 2.3 (4.1) |
| **Industry** | |
| ROS = 1.72% | ROS = -26.1 %, |
| ROCE =53.8% | ROCE =2.42 % |
| TFP =2.1 | TFP = 1.2 |
| **TRSE Enterprises** | |
| ROS = 36.9 %, | ROS = 52 %, |
| ROCE = 35.7 % | ROCE = 39 % |
| TFP = () , | TFP = () , |
| **All Enterprises** | |
| ROS = 10.4 %, N=140, | ROS = 4.7 %, N=66, |
| ROCE = 47.3 % | ROCE = 15.7 % |
| TFP = 2.2 (2.8) , N= | TFP = 1.5 (3.1) , N= |

*Source*: Field Findings,[291] 2004.

Appendix T 1 Ownership & Observed Average Firm Performance of 15 firms before and after Privatization 1986-03

| | Mann-Whitney U | Wilcoxon W | Z | Asymp. Sig. (2-tailed) | Exact Sig. [2*(1-tailed Sig.)] |
|---|---|---|---|---|---|
| APC of TFPmean | 4,000 | 7,000 | -,387 | ,699 | ,857(a) |
| RPC of TFPmean | 4,000 | 7,000 | -,387 | ,699 | ,857(a) |
| APC of ROSmean | 8,000 | 11,000 | -,592 | ,554 | ,641(a) |
| RPC of ROSmean | 6,000 | 9,000 | -,987 | ,324 | ,410(a) |
| APC of ROCEmean | 10,000 | 13,000 | -,197 | ,844 | ,923(a) |
| RPC of ROCEmean | 8,000 | 11,000 | -,592 | ,554 | ,641(a) |
| APCof TFPmedian | 2,000 | 5,000 | -1,172 | ,241 | ,381(a) |
| RPC of TFPmedian | 2,000 | 5,000 | -1,172 | ,241 | ,381(a) |
| APC of ROSmedian | 8,000 | 11,000 | -,592 | ,554 | ,641(a) |
| RPC of ROSmedian | 6,000 | 9,000 | -,987 | ,324 | ,410(a) |
| APC of ROCEmedian | 10,000 | 13,000 | -,197 | ,844 | ,923(a) |
| RPC of ROCEmedian | 5,000 | 8,000 | -1,184 | ,236 | ,308(a) |

a Not corrected for ties. , b Grouping Variable: State vs Private

*Author's Calculations, 2004*

**Appendix T 2 Ownership effect on firm performance of 15 SOEs/PSOEs before and after privatization 1986-2003**

| | Mann-Whitney U | Wilcoxon W | Z | Asymp. Sig. (2-tailed) | Exact Sig. [2*(1-tailed Sig.)] |
|---|---|---|---|---|---|
| APC of TFPmean | 4,000 | 7,000 | -, 387 | , 699 | . 857(a) |
| RPC of TFPmean | 4,000 | 7,000 | -, 387 | , 699 | , 857(a) |
| APC of ROSmean | 16,000 | 26,000 | -, 783 | , 433 | , 489(a) |
| RPC of ROSmean | 17,000 | 27,000 | -, 653 | , 514 | , 571(a) |
| APC of ROCEmean | 21,000 | 87,000 | -, 131 | , 896 | , 949(a) |
| RPC of ROCEmean | 18,000 | 28,000 | -, 522 | , 602 | , 661(a) |
| APCof TFPmedian | 2,000 | 5,000 | -1,172 | , 241 | , 381(a) |
| RPC of TFPmedian | 2,000 | 5,000 | -1,172 | , 241 | , 381(a) |
| APC of ROSmedian | 15,000 | 25,000 | -, 914 | , 361 | , 412(a) |
| RPC of ROSmedian | 17,000 | 27,000 | -. 653 | , 514 | , 571(a) |
| APC of ROCEmedian | 18,000 | 28,000 | -, 522 | , 602 | , 661(a) |
| **RPC of ROCEmedian** | **5,000** | **15,000** | **-2,219** | **, 026** | **, 026(a)** |

Notes: a) Not corrected for ties. b Grouping Variable: State vs Private.
*Author's Calculations, 2004*

**Appendix T 3 FDI Effect on firm performance of 10 firms before and after Privatization 1986-2003**

| | Mann-Whitney U | Wilcoxon W | Z | Asymp. Sig. (2-tailed) | Exact Sig. [2*(1-tailed Sig.)] |
|---|---|---|---|---|---|
| APC of ROSmean | 5,000 | 8,000 | -,783 | , 433 | , 533(a) |
| RPC of ROSmean | 8,000 | 44,000 | -, 000 | 1,000 | 1,000(a) |
| APC of ROCEmean | 8,000 | 44,000 | -, 000 | 1,000 | 1,000(a) |
| **RPC of ROCEmean** | **,000** | **3,000** | **-2,089** | **, 037** | **, 044(a)** |
| APC of ROSmedian | 4,000 | 7,000 | -1, 044 | , 296 | , 400(a) |
| **RPC of ROSmedian** | **,000** | **36,000** | **-2, 089** | **, 037** | **, 044(a)** |
| APC of ROCEmedian | 4,000 | 7,000 | -1,044 | ,296 | , 400(a) |
| **RPC of ROCEmedian** | **,000** | **3,000** | **-2, 089** | **,037** | **, 044(a)** |

*Author's Calculations, 2004*

**Appendix T 4 Local Effect on firm performance of 10 firms before and after privatization 1986-2003**

| | Mann-Whitney U | Wilcoxon W | Z | Asymp. Sig. (2-tailed) | Exact Sig. [2*(1-tailed Sig.)] |
|---|---|---|---|---|---|
| APC of TFPmean | , 000 | 1,000 | -1,225 | , 221 | , 667(a) |
| RPC of TFPmean | , 000 | 1,000 | -1,225 | , 221 | , 667(a) |
| APC of ROSmean | 2,000 | 8,000 | -, 577 | , 564 | , 800(a) |
| RPC of ROSmean | 2,000 | 8,000 | -, 577 | , 564 | , 800(a) |
| APC of ROCEmean | 2,000 | 8,000 | -, 577 | , 564 | , 800(a) |
| RPC of ROCEmean | 2,000 | 8,000 | -, 577 | , 564 | , 800(a) |
| APCof TFPmedian | , 000 | 1,000 | -1,414 | , 157 | , 667(a) |
| RPC of TFPmedian | , 000 | 1,000 | -1,414 | , 157 | , 667(a) |
| APC of ROSmedian | 2,000 | 8,000 | -, 577 | , 564 | , 800(a) |
| RPC of ROSmedian | 2,000 | 8,000 | -, 577 | , 564 | , 800(a) |
| APC of ROCEmedian | 2,000 | 8,000 | -,577 | ,564 | , 800(a) |
| RPC of ROCEmedian | 2,000 | 8,000 | -, 577 | , 564 | , 800(a) |

*a Not corrected for ties; b Grouping Variable: State vs Private.*
***Author's Calculations, 2004***

**Appendix T 5 Industry Effect on Firm performance of 9 firms before and after Privatization 1986-03**

| | Mann - Whitney U | Wilcoxon W | Z | Asymp. Sig. (2-tailed) | Exact Sig. [2*(1-tailed Sig.)] |
|---|---|---|---|---|---|
| APC of ROSmean | 7,000 | 35,000 | , 000 | 1, 000 | 1,000(a) |
| RPC of ROSmean | 7, 000 | 35,000 | ,000 | 1, 000 | 1, 000(a) |
| APC of ROCEmean | 4,000 | 25,000 | -, 667 | , 505 | , 643(a) |
| **RPC of ROCEmean** | **,000** | **3,000** | **-2, 000** | **, 046** | **, 071(a)** |
| APC of ROSmedian | 6,000 | 9,000 | -, 293 | , 770 | , 880(a) |
| **RPC of ROSmedian** | **, 000** | **28,000** | **-2,049** | **, 040** | **, 056(a)** |
| APC of ROCEmedian | 6,000 | 27,000 | , 000 | 1, 000 | 1, 000(a) |
| **RPC of ROCEmedian** | **,000** | **3,000** | **-2,000** | **, 046** | **, 071(a)** |

a Not corrected for ties; b Grouping Variable: State vs. Private.

*Source*: *Author's Calculations, 2004*

**Appendix T 6 TRSE Effect on Firm Performance 10 firms before and after Privatization 1986-03**

| | Mann -Whitney U | Wilcoxon W | Z | Asymp. Sig. (2-tailed) | Exact Sig. [2*(1-tailed Sig.)] |
|---|---|---|---|---|---|
| APC of TFPmean | 2,000 | 5,000 | -, 926 | , 355 | , 533(a) |
| RPC of TFPmean | 2,000 | 5,000 | -, 926 | , 355 | , 533(a) |
| APC of ROSmean | 2,000 | 5,000 | -, 926 | , 355 | , 533(a) |
| **RPC of ROSmean** | **, 000** | **3,000** | **-1,852** | **, 064** | **, 133(a)** |
| APC of ROCEmean | 4,000 | 7,000 | -, 387 | , 699 | , 857(a) |
| RPC of ROCEmean | 2,000 | 5,000 | -1,162 | , 245 | , 381(a) |
| **APCof TFPmedian** | **, 000** | **3,000** | **-1,879** | **, 060** | **, 133(a)** |
| **RPC of TFPmedian** | **, 000** | **3,000** | **-1,879** | **, 060** | **, 133(a)** |
| APC of ROSmedian | 2,000 | 5,000 | -, 926 | , 355 | , 533(a) |
| **RPC of ROSmedian** | **, 000** | **3,000** | **-1,852** | **, 064** | **, 133(a)** |
| APC of ROCEmedian | 4,000 | 7,000 | -, 387 | , 699 | , 857(a) |
| RPC of ROCEmedian | 1,000 | 4,000 | -1,549 | , 121 | , 190(a) |

*Source*: *Author's Calculations, 2004*

## Appendix 6 List of Firms Studied

1. Bank of Baroda U Limited (BOBU)
2. Barclays Bank U limited
3. British American Tobacco Uganda (BATU)
4. Century Bottling Company Limited
5. Grindlays Bank/Stanbic
6. Hima Cement
7. Kibimba Rice Scheme
8. KiSW
9. KSW
10. Lake Victoria Bottling Company/Crown Bottlers Limited
11. Nile Breweries Limited (NBL)
12. Nyanza Textiles Limited (NYTIL)
13. Sugar Corporation of Uganda Limited (SCOUL)
14. Shell U limited
15. Stanchart Bank Limited
16. Total U Limited
17. TUMPECO
18. UEB/UEDCL
19. UEB/UEGCL
20. Uganda Airlines Corporation (UAC) Entebbe Handling Services (ENHAS)
21. Uganda Breweries Limited (UBL)
22. Uganda Clay Works Limited/Uganda Clays Limited
23. Uganda Grain Milling Company (UGMC)
24. Uganda leather and Tanning Industry (ULATI)
25. Uganda Meat Industries, Kampala (UMI)
26. Uganda Pharmaceutical Limited ($UP_hL$)
27. Uganda Garments Industry Limited (UGIL)/Phoenix International Limited
28. UGMA Engineering
29. UP & TC/Posta Bank
30. UP & TC/UPL
31. UP & TC/UTL

# Appendix 7 Raw Data of mean and median TFP, ROS, ROCE

| | **TFP** | | **ROS** | **ROCE** | **TFP** | **ROS** | **ROCE** | TFP | ROS | ROCE | ROS | ROCE | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| BATU | **2.9** | | **36.8** | **7.8** | **133** | **28.1** | **2.9** | | 32.6 | 7.3 | 59.7 | 29, 9 | 2 | 3 | 2 | 2 | 1 | 1 | 1 | 1 |
| Nile Breweries Limited | **2.4** | | **9.9** | **4.9** | **25** | **0** | **2.5** | | 7.1 | 4.8 | 21.1 | | 2 | 3 | 3 | 1 | 1 | 2 | 1 | 1 |
| Uganda Breweries Limited | | | **3.4** | **8.9** | **15.9** | **17.3** | | | 4.2 | 10.6 | 8.1 | 25.9 | 2 | 3 | 2 | 1 | 1 | 2 | 1 | 1 |
| LVBC/Crown Bottlers | | | **24.7** | **-5.2** | **58.9** | **-18** | | | 25.7 | -5.7 | 45.6 | -5.9 | 1 | 3 | 2 | 2 | 1 | 2 | 1 | 1 |
| Century Bottling Company | | | **0** | **13.7** | **0** | **21.4** | | | 0 | 13.7 | | 21.4 | 2 | 3 | 2 | 1 | 1 | 2 | 1 | 1 |
| UGMC | **20.7** | | **25.7** | **0** | **31.2** | **0** | **20.7** | | 8.8 | 0 | 35.6 | | 1 | 3 | 2 | 2 | 1 | 4 | 2 | 1 |
| Kibimba Rice Scheme | | | **32.3** | **0** | **131** | **0** | | | 22.7 | 0 | 144 | | 2 | 3 | 3 | 2 | 1 | 2 | 2 | 1 |
| Uganda Meat Parkers Ltd. (UMI) | **2.3** | **1.1** | **57.3** | **9.7** | **328** | **5.4** | **2.3** | 1.1 | 78.1 | 9.5 | 412 | 5.2 | 1 | 3 | 3 | 1 | 1 | 2 | 2 | 1 |
| Kakira Sugar Works | | | **0** | **0** | **0** | **0** | | | 0 | 0 | | | 2 | 3 | 2 | 2 | 1 | 3 | 2 | 1 |
| Kinyara Sugar Works | | | **0** | **13.1** | **0** | **6.6** | | | 0 | 16.5 | | 7.9 | 1 | 2 | 3 | 1 | 1 | 3 | 2 | 1 |
| SCOUL | **2.2** | | **-40** | **-29.9** | **-10** | **-4.1** | **2.2** | | -37 | -24.8 | -10 | -9.7 | 2 | 3 | 2 | 2 | 1 | 3 | 2 | 1 |
| UGIL | | **0.3** | **-4** | **-239.7** | **12.5** | **-6.5** | | 0.33 | -0.5 | -239.7 | 14.2 | -6.5 | 2 | 2 | 2 | 2 | 1 | 3 | 3 | 1 |
| NYTIL | **2.6** | | **7.4** | **0** | **-1.1** | **0** | **2.7** | | 13.5 | | 1.3 | | 2 | 3 | 2 | 1 | 1 | 3 | 3 | 1 |
| ULATI | **1.1** | | **-15** | **0** | **-0.7** | **0** | **1** | | -21 | | -23 | | 2 | 3 | 2 | 1 | 1 | 1 | 3 | 1 |
| UGMA | | **1.3** | **0** | **-74.7** | **0** | **-11** | | 0.9 | | -64.3 | | -8.5 | 2 | 2 | 3 | | 1 | 1 | 4 | 1 |
| TUMPECO | **1.4** | | **32.9** | **0** | **41.2** | **0** | **1.5** | | 56.8 | | 30.9 | | 1 | 3 | 2 | 1 | 1 | 1 | 4 | 1 |
| Uganda Clays Limited | **2** | | **9.5** | **16.2** | **15.1** | **11.8** | **2** | | 14.2 | 15.9 | 9.7 | 12.8 | 1 | 3 | 1 | 2 | 1 | 4 | 5 | 1 |
| Hima Cement | | | **0** | **28.7** | **11.7** | **0** | | | | 28.7 | 11.7 | | 2 | 3 | 1 | 1 | 1 | 2 | 5 | 1 |
| Tororo Cement Factory | | | **0** | **0** | **0** | **0** | | | | | | | 2 | 3 | 2 | 1 | 1 | 2 | 5 | 1 |
| UPL | | | **23.2** | **0** | **16.9** | **0** | | | 21.9 | | 13.9 | | 2 | 3 | 2 | 2 | 3 | 4 | 6 | 1 |
| UEB/UEDCL/UEDCL/UEGCL | | **2, 2** | **-0.2** | **10.7** | **-0.1** | **5.7** | | 2.2 | 3.1 | 10.7 | 0.4 | -5.7 | 2 | 2 | 1 | 2 | 4 | 1 | 7 | 1 |
| UAC/ENHAS | **0.9** | | **-14** | **0** | **3.4** | **0** | **1** | | 3.5 | | 2.4 | | 1 | 3 | 2 | 1 | 3 | 1 | 8 | 2 |
| UP&TC/posts | **1.6** | **1** | **32.1** | **11.5** | **10.8** | **1.5** | **1.7** | 1.1 | 33.2 | 14.5 | 11.4 | 1.9 | 1 | 1 | 3 | 2 | 3 | 1 | 8 | 2 |
| UP&TC/UPL | **1.6** | **1.1** | **32.1** | **12.5** | **10.8** | **4.7** | **1.7** | 1.1 | 33.2 | 12.5 | 11.4 | 4.7 | 1 | 1 | 0 | 2 | 3 | 3 | 8 | 2 |
| Total | | | **0** | **68.3** | **0** | **142.4** | | | | 68.3 | | 142 | 2 | 3 | 2 | 1 | 3 | 4 | 8 | 2 |
| Shell | | **8.1** | **0** | **12.3** | **19.3** | **43.1** | | 8.4 | | 10 | 19.3 | 42.1 | 2 | 3 | 3 | 1 | 3 | 4 | 8 | 2 |
| Grindlays/Stanbic | **1.7** | **2.6** | **60.7** | **113.7** | **23.9** | **58.7** | **1.5** | 2.6 | 51.4 | 99 | 9.5 | 58.5 | 2 | 3 | 2 | 2 | 2 | 4 | 9 | 2 |
| Stanchart | **2.4** | **7.7** | **37.8** | **72.8** | **27.4** | **21.5** | **1.8** | 7.9 | 63.5 | 73.4 | 27.1 | 8 | 2 | 3 | 2 | 2 | 2 | 4 | 9 | 2 |
| Baroda | **1.6** | **1.8** | **83.7** | **45.5** | **47.2** | **4.7** | **1.6** | 1.8 | 76.8 | 49.1 | 9.9 | 4.8 | 2 | 3 | 2 | 2 | 2 | 4 | 9 | 2 |
| Barclays | **5.8** | **2.3** | **39.1** | **69.8** | **131** | **62.8** | **1.8** | 2.3 | 47.3 | 69.8 | 72.5 | 62.8 | 2 | 3 | 2 | 2 | 2 | 4 | 9 | 2 |

**Bold mean before privatization, unbold mean after privatization**

# Appendix 8 Variable list and coding

| Variable Name: | Coding: | Meaning: |
|---|---|---|
| TFPbefore | numerical value | means TFP before privatisation |
| TFPafter | numerical value | means TFP after privatisation |
| ROSbefore | numerical value | mean ROS before privatisation |
| ROSafter | numerical value | mean ROS after privatisation |
| ROCEbefore | numerical value | mean ROCE before privatisation |
| ROCEafter | numerical value | mean ROCE after privatisation |
| TFPmbefore | numerical value | median TFP before privatisation |
| TFPmafter | numerical value | median TFP after privatisation |
| ROSmbefore | numerical value | median ROS before privatisation |
| ROSmafter | numerical value | median ROS after privatisation |
| ROCEmbefore | numerical value | median ROCE before privatisation |
| ROCEmafter | numerical value | median ROCE after privatisation |
| local_for | 1 | local |
| | 2 | foreign |
| Stat_mix_priv | 1 | state |
| | 2 | mixed |
| | 3 | private |
| mkr_lic | 1 | import tariffs |
| | 2 | minimum capital requirement |
| | 3 | licensing only |
| | 4 | price control |
| mono_comp | 1 | monopoly |
| | 2 | duopoly |
| | 3 | monopolistic competition |
| | 4 | four or more |
| SectType | 1 | Soft drinks, beer & tobacco |
| | 2 | Food |
| | 3 | Garments |
| | 4 | Metal |
| | 5 | Construction |
| | 6 | Pharmaceuticals |
| | 7 | Energy |
| | 8 | Transpt & Telecom |
| | 9 | Banking |
| Ind_Ser | 1 | Industry |
| | 2 | Trade & Services |

## Appendix 9 Raw Data from Firms' Records

| Uganda Meat Parkers | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | | | | | 305.9 | 133.8 | 173.9 | 167.7 | 106.3 | | | | | | 1180094 | 2193727 | 1452276 |
| PBIT | | | | | 75.2 | 29.2 | 140 | 131.1 | 86.6 | | | | | | 188726.4 | 88027.2 | 135511 |
| COS | | | | | | | | | | | | | | | | | |
| TE | | | | | 91.6 | 107.7 | | | | | | | | | 993060.2 | 2194959 | 1362618 |
| | | | | | -16.4 | -78.5 | | | | | | | | | | | |
| FA | | | | | 57.8 | 51.5 | 49.1 | 45.7 | 43.6 | | | | | | 1916671 | 1974634 | 1934863 |
| CA | | | | | 67.5 | 59.1 | 55.7 | 54.4 | 35.8 | | | | | | 763696.5 | 259174 | 656803 |
| CL | | | | | 64.3 | 37.2 | 77 | 68.3 | 63.9 | | | | | | 52435.7 | 31560 | 30265.5 |
| wk | 0 | 0 | 0 | 0 | 3.2 | 21.9 | -21.3 | -13.9 | -28.1 | 0 | 0 | 0 | 0 | 0 | 711260.8 | 227614 | 626537 |
| CE | 0 | 0 | 0 | 0 | 61 | 73.4 | 27.8 | 31.8 | 15.5 | 0 | 0 | 0 | 0 | 0 | 2627932 | 2202247 | 2561401 |
| | | | | | | | | | | | | | | | | | |
| WAGES | | | | | | | | | | | | | | | 55334.1 | 2638.9 | 58392.8 |
| K/L | #DIV/0! | ##### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #### | 34.63815 | 748.279 | 33.1353 |
| | | | | | | | | | | | | | | | | | |
| ROS | #DIV/0! | ##### | #DIV/0! | #DIV/0! | 24.58 | 21.82 | 80.50604 | 78.17531306 | 81.46754468 | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #### | 15.99249 | 4.01268 | 9.33095 |
| ROCE | #DIV/0! | ##### | #DIV/0! | #DIV/0! | 123.3 | 39.78 | 503.5971 | 412.2641509 | 558.7096774 | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #### | 7.181557 | 3.99715 | 5.29051 |
| TFP | #DIV/0! | ##### | #DIV/0! | #DIV/0! | 3.34 | 1.242 | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #### | 1.188341 | 0.99944 | 1.0658 |

| Ugil/Phoenix | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | 391.5 | 20.9 | 167.7 | 286 | 382 | 522 | | | | | | | | | | | 310.9 |
| PBIT | -321.8 | -9.9 | -94.1 | 159 | 227 | 242 | | | | | | | | | | | -745.4 |
| COS | | | | 157 | 155 | 280 | | | | | | | | | | | |
| TE | | | | | | | | | | | | | | | | | 934 |
| | | | | | | | | | | | | | | | | | -897.1 |
| FA | | | | 1396 | 1141 | 1167 | | | | | | | | | | | 10119 |
| CA | | | | 226 | 300 | 278 | | | | | | | | | | | 1657 |
| CL | | | | -202 | -157 | -198 | | | | | | | | | | | 407.6 |
| wk | 0 | 0 | 0 | 428 | 457 | 476 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1249 |
| CE | 0 | 0 | 0 | 1824 | 1598 | 1643 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 11368 |
| | | | | | | | | | | | | | | | | | |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### | ##### | #DIV/0! | #DIV/0! | ##### | ##### | ##### | ##### | #### | ##### | ##### | #DIV/0! |
| | | | | | | | | | | | | | | | | | |
| ROS | -82.197 | -47.37 | -56.11 | 55.59 | 59.424 | 46.36 | ##### | #DIV/0! | #DIV/0! | ##### | ##### | ##### | ##### | #### | ##### | ##### | -239.8 |
| ROCE | #DIV/0! | #DIV/0! | #DIV/0! | 8.717 | 14.205 | 14.73 | ##### | #DIV/0! | #DIV/0! | ##### | ##### | ##### | ##### | #### | ##### | ##### | -6.557 |
| TFP | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### | ##### | #DIV/0! | #DIV/0! | ##### | ##### | ##### | ##### | #### | ##### | ##### | 0.333 |

| Kibimba/tilda | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | 16.6 | 36.7 | 46.1 | 108.9 | 101 | 73 | 38 | | | | | | | | | | |
| PBIT | | | 5.8 | -19.4 | 23 | 42 | 33 | | | | | | | | | | |
| COS | 15.5 | 23 | | | 68 | 33 | 15 | | | | | | | | | | |
| TE | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| FA | 10.1 | 9.5 | 8.2 | 6.7 | 8 | 8 | 8 | | | | | | | | | | |
| CA | 4 | 23 | 46.7 | 64.7 | 32 | 32 | 26 | | | | | | | | | | |
| CL | 9.8 | 13.2 | 34.8 | 35.2 | 24 | 24 | 22 | | | | | | | | | | |
| wk | -5.8 | 9.8 | 11.9 | 29.5 | 8 | 8 | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CE | 7.4 | 18.7 | 20.2 | 36.2 | 16 | 16 | 12 | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | ##### | ##### | #### | ##### | ##### | ##### | ##### | #### | ##### | ##### | #### | #### | #### | #### | #### | #### | #### |
| | | | | | | | | | | | | | | | | | |
| ROS | 0 | 0 | 12.6 | -17.8 | 22.77 | 57.53 | 86.84 | #### | ##### | ##### | #### | #### | #### | #### | #### | #### | #### |
| ROCE | 0 | 0 | 28.7 | -53.6 | 143.8 | 262.5 | 275 | #### | ##### | ##### | #### | #### | #### | #### | #### | #### | #### |
| TFP | ##### | ##### | #### | ##### | ##### | ##### | ##### | #### | ##### | ##### | #### | #### | #### | #### | #### | #### | #### |

| BAT | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | | | | 6300 | 9167 | 13104 | 18785 | 47439 | 57346 | 31302 | 34337 | 40190 | 48510 | 53702 | 1E+05 | 103988 | 136001 |
| PBIT | | | | 3267 | 4667 | 8602.2 | 10173 | 11151 | 10285 | 10212 | 11742 | 12440 | 11012 | 11097 | 7726 | 10019 | 9276.3 |
| COS | | | | | | | | | | 14177 | 14296 | 19625 | 25770 | 27790 | 45225 | 43968 | 72889 |
| TE | | | | 2098 | 3219 | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| FA | | | | 1760 | 2124 | 2724.6 | 11358 | 11874 | 13785 | 14322 | 21160 | 22667 | 23094 | 27281 | 35662 | 34899 | 32503 |
| CA | | | | 5642 | 7927 | 10706 | 15636 | 18093 | 21388 | 23490 | 22265 | 25334 | 31462 | 57261 | 65475 | 65622 | 86606 |
| CL | | | | 6219 | 8803 | 11118 | 15111 | 15157 | 17967 | 17980 | 20057 | 22017 | 27075 | 53332 | 63324 | 67124 | 91814 |
| wk | 0 | 0 | 0 | -576.4 | -876.4 | -411.7 | 525.1 | 2937 | 3421 | 5510.1 | 2208 | 3317 | 4388 | 3929 | 2151 | -1503 | -5208.4 |
| CE | 0 | 0 | 0 | 1183 | 1248 | 2312.9 | 11883 | 14810 | 17206 | 19832 | 23368 | 25984 | 27481 | 31211 | 37812 | 33397 | 27294 |
| | | | | | | | | | | | | | | | | | |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### | ##### | #DIV/0! | #DIV/0! | ##### | ##### | ##### | ##### | ##### | #DIV/0! | #DIV/0! |
| | | | | | | | | | | | | | | | | | |
| ROS | #DIV/0! | #DIV/0! | #DIV/0! | 51.86 | 50.91 | 65.644 | 54.15 | 23.51 | 17.93 | 32.626 | 34.2 | 30.95 | 22.7 | 20.66 | 6.994 | 9.6344 | 6.8208 |
| ROCE | #DIV/0! | #DIV/0! | #DIV/0! | 276.2 | 374 | 371.92 | 85.61 | 75.29 | 59.77 | 51.495 | 50.25 | 47.88 | 40.07 | 35.55 | 20.43 | 29.999 | 33.986 |
| TFP | #DIV/0! | #DIV/0! | #DIV/0! | 3.003 | 2.848 | #DIV/0! | ##### | ##### | #DIV/0! | #DIV/0! | ##### | ##### | ##### | ##### | ##### | #DIV/0! | #DIV/0! |

| UGMC | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | 259 | 1021 | | | | | 10997 | 10659 | 334.1 | 229.7 | | | | | | | |
| PBIT | 29.4 | 222.4 | | | | | 1055 | 866.3 | 259.6 | -16.8 | | | | | | | |
| COS | | | | | | | 161.1 | 359.2 | | | | | | | | | |
| TE | | | | | | | 814.8 | 382.1 | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| FA | | | | | | | 1726 | 1653.7 | | | | | | | | | |
| CA | | | | | | | 5480 | 4398.2 | 5338 | 4459 | | | | | | | |
| CL | | | | | | | 5251 | 3814.6 | 4540.7 | 1510 | | | | | | | |
| wk | 0 | 0 | 0 | 0 | 0 | 0 | 229.7 | 583.6 | 797.3 | 2949 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CE | 0 | 0 | 0 | 0 | 0 | 0 | 1955 | 2237.3 | 797.3 | 2949 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | | | | | | | | | | | | |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | #DIV/0! | #DIV/0! | ##### | ##### | #### | ##### | ##### | #DIV/0! | #DIV/0! | #DIV/0! | #### | #DIV/0! | #### | #### | #### | #### | ##### |
| | | | | | | | | | | | | | | | | | |
| ROS | 11.351 | 21.783 | ##### | ##### | #### | ##### | 9.592 | 8.1276 | 77.701 | -7.314 | #### | #DIV/0! | #### | #### | #### | #### | ##### |
| ROCE | #DIV/0! | #DIV/0! | ##### | ##### | #### | ##### | 53.95 | 38.721 | 32.56 | -0.57 | #### | #DIV/0! | #### | #### | #### | #### | ##### |
| TFP | #DIV/0! | #DIV/0! | ##### | ##### | #### | ##### | 13.5 | 27.895 | #DIV/0! | #DIV/0! | #### | #DIV/0! | #### | #### | #### | #### | ##### |

| Uganda Clay Works | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | 16382 | 38212 | 1E+05 | | 444 | 815.4 | 938.1 | 1238 | 1442 | 1773 | 2042 | 2584 | 2820 | 3476 | 3743.8 | 3726 | 5039 |
| PBIT | 2849 | -22332 | 9429 | | 47.7 | 179.7 | 134.1 | 7.7 | 347 | 432 | 395.1 | 324 | 284 | 697.7 | 588.6 | 408.3 | 1109 |
| COS | | | | | | | | | | | | | | | | 2416 | 2865 |
| TE | | | | | | | | | | | | | | | | | |
| FA | | | | | 309.1 | 3324 | 3218 | 3203 | 3073 | 2955 | 2940 | 3096 | 2838 | 2940 | 4639 | 4259 | 8410 |
| CA | | | | | 396.3 | 419.2 | 589.2 | 573 | 748 | 854 | 1063 | 1122 | 1306 | 1625 | 1062.7 | 960.3 | 1338 |
| CL | | | | | 87.6 | 268.2 | 342.3 | 411.2 | 475 | 474 | 584 | 659 | 536 | 536.4 | 1097.8 | 782.6 | 1475 |
| wk | 0 | 0 | 0 | 0 | 308.7 | 151 | 246.9 | 161.7 | 273 | 380 | 479 | 463 | 770 | 1089 | -35.1 | 177.7 | -137.5 |
| CE | | | | | 617.8 | 3475 | 3465 | 3365 | 3347 | 3335 | 3420 | 3559 | 3608 | 4029 | 4603.9 | 4436 | 8273 |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | #DIV/0! | #DIV/0! | ##### | #### | ##### | ##### | ##### | ##### | #DIV/0! | #REF! | #DIV/0! | #DIV/0! | #### | ##### | #DIV/0! | ##### | ##### |
| ROS | 17.391 | -58.442 | 7.594 | #### | 10.74 | 22.04 | 14.29 | 0.622 | 24.06 | 24.37 | 19.35 | 12.54 | 10.1 | 20.07 | 15.722 | 10.96 | 22 |
| ROCE | #DIV/0! | #DIV/0! | ##### | #### | 71.87 | 5.171 | 3.871 | 0.229 | 10.37 | 12.95 | 11.55 | 9.104 | 7.87 | 17.32 | 12.785 | 9.204 | 13.4 |
| TFP | #DIV/0! | #DIV/0! | ##### | #### | #REF! | ##### | ##### | ##### | #DIV/0! | 2.076 | #DIV/0! | #DIV/0! | #### | ##### | #DIV/0! | ##### | ##### |

| UEB | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | | | | | | 10117 | 21956 | 30039 | 48310 | 50411 | 60176.1 | 73855.7 | 76040.9 | 87457.3 | 114595 | 100576 | |
| PBIT | | | | | | 2319.5 | 3144.5 | -2018 | 1883.7 | 1247.6 | 401.8 | -13196 | -26474 | 4063.6 | 9439.4 | 10826.5 | |
| COS | | | | | | | | | | | | | | | | | |
| TE | | | | | | | | | | | | | | | | 44994.9 | |
| | | | | | | | | | | | | | | | | | |
| FA | | | | | | 293016 | 326869 | 579241 | 598839 | 652366 | 599611 | 530304 | 599393 | 842010 | 948000 | | |
| CA | | | | | | 15607 | 21967.9 | 37383 | 46898.3 | 56589 | 77075.9 | 81769.3 | 82504.2 | 96667 | 128209 | | |
| CL | | | | | | 20997 | 28727.5 | 26388 | 28816.6 | 32753 | 46025.9 | 63192.9 | 67488.1 | 80268 | 76954 | | |
| wk | 0 | 0 | 0 | 0 | 0 | -5390 | -6759.6 | 10995 | 18081.7 | 23836 | 31050 | 18576.4 | 15016.1 | 16399 | 51255 | 0 | 0 |
| CE | | | | | | 287626 | 320110 | 590236 | 616920 | 676202 | 630661 | 548881 | 614409 | 858409 | 999255 | 191160 | 0 |
| | | | | | | | | | | | | | | | | | |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | ##### | #DIV/0! | ##### | #### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### |
| | | | | | | | | | | | | | | | | | |
| ROS | ##### | #DIV/0! | ##### | #### | #DIV/0! | 22.927 | 14.3218 | -6.716 | 3.89919 | 2.4748 | 0.66771 | -17.868 | -34.816 | 4.64638 | 8.2372 | 10.7645 | ##### |
| ROCE | ##### | #DIV/0! | ##### | #### | #DIV/0! | 0.8064 | 0.98232 | -0.342 | 0.30534 | 0.1845 | 0.06371 | -4.8233 | 0.66138 | 0.47339 | 0.9446 | 5.66357 | ##### |
| TFP | ##### | #DIV/0! | ##### | #### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | 2.23528 | ##### |

| LVBC-Crown | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | 107.9 | 85.1 | 11907 | 3513 | 5619 | | | | | | | | 30804 | 19933.3 | 18776.5 | 19062.4 | 18419.7 |
| PBIT | 11.73 | 42.9 | 437.8 | 1162 | 1447 | | | | | | | | -4499.2 | -309.1 | -2250.4 | -1201.6 | 1562.4 |
| COS | | | | | | | | | | | | | | | | | |
| TE | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| FA | | 186.9 | 276.1 | 3076 | 3141 | | | | | | | | | 14335.1 | 14033.6 | 14351.9 | 12653.1 |
| CA | | 75.1 | 366.9 | 563.8 | 1269 | | | | | | | | | 6480.9 | 7181.1 | 5805.9 | 7407.6 |
| CL | | 73.1 | 239.5 | | | | | | | | | | | 12450.6 | 17723.8 | | |
| wk | 0 | 2 | 127.4 | 73.5 | 25.8 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -5969.7 | -10542.7 | 5805.9 | 7407.6 |
| CE | | 188.9 | 403.5 | 3.1 | 3167 | | | | | | | | 18421 | 8365.3 | 3491 | 20157.9 | 20060.8 |
| | | | | | | | | | | | | | | | | | |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | #DIV/0! | #DIV/0! | #DIV/0! | ##### | ##### | ##### | #DIV/0! | ##### | #DIV/0! | #### | ##### | ##### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |
| | | | | | | | | | | | | | | | | | |
| ROS | 10.871 | 50.411 | 3.677 | 33.08 | 25.75 | ##### | #DIV/0! | ##### | #DIV/0! | #### | ##### | ##### | -14.606 | -1.5506715 | -11.985194 | -6.3035085 | 8.4822228 |
| ROCE | #DIV/0! | 22.71 | 108.5 | 37487 | 45.69 | ##### | #DIV/0! | ##### | #DIV/0! | #### | ##### | ##### | -24.424 | -3.6950259 | -64.462905 | -5.9609384 | 7.7883235 |
| TFP | #DIV/0! | #DIV/0! | #DIV/0! | ##### | ##### | ##### | #DIV/0! | ##### | #DIV/0! | #### | ##### | ##### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |

| UPL | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | 46.3 | 152.8 | 351.1 | 535.6 | 1056.8 | 1778.7 | 1519 | | | | | 395.3 | 1265 | 1328.6 | 2964.5 | 4885.2 | |
| PBIT | 11.6 | 30.9 | 94 | 238.9 | 132.6 | 202.1 | 332.8 | | | | | | | | | | |
| COS | 38.1 | 192.8 | 253.3 | 323.7 | 869.5 | | | | | | | | | | | | |
| TE | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| FA | 24.1 | 24.8 | 33.6 | 61 | 464 | 777.1 | 1236 | | | | | | | | | | |
| CA | 10.3 | 196.3 | 475.1 | 1880 | 2143.8 | 1605 | 1280 | | | | | | | | | | |
| CL | 4.8 | 80.3 | 163.9 | 347 | 400.3 | 1057.8 | 1266 | | | | | | | | | | |
| wk | 5.5 | -161.9 | 311.2 | 1533 | 1743.5 | 547.2 | 14 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CE | 34.5 | 221.1 | 508.7 | 1941 | 2607.8 | 2382.2 | 1250 | | | | 2775 | 3805.7 | 2708 | 2169.5 | 6461.3 | 6729.8 | |
| | | | | | | | | | | | | | | | | | |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### | #DIV/0! | #DIV/0! | ##### | #DIV/0! | ##### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |
| | | | | | | | | | | | | | | | | | |
| ROS | 25.054 | 20.223 | 26.773 | 44.604 | 12.5473 | 11.362 | 21.91 | ##### | #DIV/0! | #DIV/0! | ##### | 0 | 0 | 0 | 0 | 0 | #DIV/0! |
| ROCE | 33.623 | 13.976 | 18.478 | 12.308 | 5.08475 | 8.4838 | 26.63 | ##### | #DIV/0! | #DIV/0! | 0 | 0 | 0 | 0 | 0 | 0 | #DIV/0! |
| TFP | #DIV/0! | #REF! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### | #DIV/0! | #DIV/0! | ##### | #DIV/0! | ##### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |

| ULATI | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | 420.4 | 30 | 57.5 | | 307.5 | 323.9 | 399 | | | | | | | | | | |
| PBIT | -195 | -4.4 | -5 | | -64.4 | -124.3 | 57 | | | | | | | | | | |
| COS | | | | | 163.8 | 208.7 | | | | | | | | | | | |
| TE | | | | | 231.4 | 318.5 | 404 | | | | | | | | | | |
| | | | | | | | -347 | | | | | | | | | | |
| FA | | | | | 45.6 | 88.8 | 76.6 | | | | | | | | | | |
| CA | | | | | 353.9 | 343.9 | 207.2 | | | | | | | | | | |
| CL | | | | | 120.4 | 203 | 207.7 | | | | | | | | | | |
| wk | 0 | 0 | 0 | 0 | 233.5 | 140.9 | -0.5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CE | 0 | 0 | 0 | 0 | 279.1 | 229.7 | 76.1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | | | | | | | | | | | | |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | #DIV/0! | #DIV/0! | #DIV/0! | ##### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### | #DIV/0! | ##### | ##### | ##### | ##### | #DIV/0! |
| | | | | | | | | | | | | | | | | | |
| ROS | -46.38 | -14.67 | -8.696 | ##### | -20.94 | -38.38 | 14.29 | #DIV/0! | #DIV/0! | #DIV/0! | ##### | #DIV/0! | ##### | ##### | ##### | ##### | #DIV/0! |
| ROCE | #DIV/0! | #DIV/0! | #DIV/0! | ##### | -23.07 | -54.11 | 74.9 | #DIV/0! | #DIV/0! | #DIV/0! | ##### | #DIV/0! | ##### | ##### | ##### | ##### | #DIV/0! |
| TFP | #DIV/0! | #DIV/0! | #DIV/0! | ##### | 1.3289 | 1.017 | 0.988 | #DIV/0! | #DIV/0! | #DIV/0! | ##### | #DIV/0! | ##### | ##### | ##### | ##### | #DIV/0! |

| Hima Cement | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | | | | | | | | | | | 23298 | 20592 | | | | | |
| PBIT | | | | | | | | | | | 8258.4 | 4523.6 | | | | | |
| COS | | | | | | | | | | | | | | | | | |
| TE | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| FA | | | | | | | | | | | 52402 | 54363 | | | | | |
| CA | | | | | | | | | | | 6180.2 | 7608.9 | | | | | |
| CL | | | | | | | | | | | 5075.2 | 6082.7 | | | | | |
| wk | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1105 | 1526.2 | 0 | 0 | 0 | 0 | 0 |
| CE | | | | | | | | | | | 53507 | 55889 | | | | | |
| | | | | | | | | | | | | | | | | | |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | #DIV/0! | #DIV/0! | ##### | ##### | #DIV/0! | ##### | #DIV/0! | #DIV/0! | #### | #DIV/0! | #DIV/0! | #DIV/0! | ##### | #DIV/0! | ##### | #DIV/0! | #DIV/0! |
| | | | | | | | | | | | | | | | | | |
| ROS | #DIV/0! | #DIV/0! | ##### | ##### | #DIV/0! | ##### | #DIV/0! | #DIV/0! | #### | #DIV/0! | 35.446 | 21.968 | ##### | #DIV/0! | ##### | #DIV/0! | #DIV/0! |
| ROCE | #DIV/0! | #DIV/0! | ##### | ##### | #DIV/0! | ##### | #DIV/0! | #DIV/0! | #### | #DIV/0! | 15.434 | 8.0939 | ##### | #DIV/0! | ##### | #DIV/0! | #DIV/0! |
| TFP | #DIV/0! | #DIV/0! | ##### | ##### | #DIV/0! | ##### | #DIV/0! | #DIV/0! | #### | #DIV/0! | #DIV/0! | #DIV/0! | ##### | #DIV/0! | ##### | #DIV/0! | #DIV/0! |

| Cable Corporation | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | | | | | | | | | | | | 4600 | 2839.4 | 1831 | | | |
| PBIT | | | | | | | | | | | | -1152 | 231.4 | -287.6 | | | |
| COS | | | | | | | | | | | | 2368 | 2888.1 | 2177 | | | |
| TE | | | | | | | | | | | | 3111 | 3001.2 | 2145 | | | |
| | | | | | | | | | | | | -760 | 2096.2 | | | | |
| FA | | | | | | | | | | | | 3474 | 2956.7 | 2482 | | | |
| CA | | | | | | | | | | | | 5029 | 4713.8 | 3274 | | | |
| CL | | | | | | | | | | | | 1801 | 2314.5 | 2140 | | | |
| wk | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3228 | 2399.3 | 1134 | 0 | 0 | 0 |
| CE | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6702 | 5356 | 3616 | 0 | 0 | 0 |
| | | | | | | | | | | | | | | | | | |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | #DIV/0! | ##### | #### | #DIV/0! | ##### | #### | #DIV/0! | #### | ##### | ##### | ##### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #### | #DIV/0! |
| | | | | | | | | | | | | | | | | | |
| ROS | #DIV/0! | ##### | #### | #DIV/0! | ##### | #### | #DIV/0! | #### | ##### | ##### | ##### | -25.05 | 8.1496 | -15.71 | #DIV/0! | #### | #DIV/0! |
| ROCE | #DIV/0! | ##### | #### | #DIV/0! | ##### | #### | #DIV/0! | #### | ##### | ##### | ##### | -17.19 | 4.3204 | -7.955 | #DIV/0! | #### | #DIV/0! |
| TFP | #DIV/0! | ##### | #### | #DIV/0! | ##### | #### | #DIV/0! | #### | ##### | ##### | ##### | 1.479 | 0.9461 | 0.854 | #DIV/0! | #### | #DIV/0! |

| UGMA | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | | | 116.5 | 206.8 | 499.3 | 433.2 | 728 | 669.2 | | | | | 767 | 906.1 | 769 | 961.8 | |
| PBIT | | | -74.9 | -297 | -591.6 | -800 | -223 | -246 | | | | | -145.7 | 344.8 | -356.1 | -1369 | |
| COS | | | | | | | | | | | | | 1878.8 | 1441 | | | |
| TE | | | 103.9 | 45.4 | 654.3 | 859 | 468.5 | 634.8 | | | | | | | 1558 | 1640 | |
| | | | | | -571.9 | -762 | -272 | -395 | | | | | -2732 | -2390 | -3781 | -2829 | |
| FA | | | 1184 | 2513 | 3104 | 5846 | 6915 | 9631 | | | | | 9545.2 | 8884 | 8280 | 8359 | |
| CA | | | 130.8 | 245.9 | 419.2 | 823.2 | 894.9 | 1286 | | | | | 1036.5 | 947.2 | 852.5 | 775.9 | |
| CL | | | 240.8 | 590.9 | 1206 | 2247 | 602 | 1207 | | | | | 5219.9 | 6133 | 5626 | 4978 | |
| wk | 0 | 0 | -110 | -345 | -786.7 | -1424 | 292.9 | 79.2 | 0 | 0 | 0 | 0 | -4183 | -5186 | -4773 | -4202 | 0 |
| CE | 0 | 0 | 1074 | 2168 | 2317 | 4423 | 7208 | 9710 | 0 | 0 | 0 | 0 | 5361.8 | 3698 | 3507 | 4158 | 0 |
| WAGES | 1 | 7.6 | 940 | 2509 | 81.6 | 120.5 | 64.2 | 153.1 | | | | | 870.3 | 811 | 826.3 | 874.3 | |
| K/L | 0 | 0 | 1.26 | 1.001 | 38.04 | 48.52 | 107.7 | 62.91 | #### | ##### | ##### | ##### | 10.968 | 10.95 | 10.02 | 9.561 | #DIV/0! |
| ROS | #DIV/0! | ##### | -64.3 | -144 | -118.5 | -185 | -30.6 | -36.7 | #### | ##### | ##### | ##### | -19 | 38.05 | -46.31 | -142.3 | #DIV/0! |
| ROCE | #DIV/0! | ##### | -6.97 | -13.7 | -25.53 | -18.1 | -3.09 | -2.53 | #### | ##### | ##### | ##### | -2.717 | 9.325 | -10.15 | -32.92 | #DIV/0! |
| TFP | #DIV/0! | ##### | 1.121 | 4.555 | 0.763 | 0.504 | 1.554 | 1.054 | #### | ##### | ##### | ##### | #DIV/0! | ##### | 0.494 | 0.586 | #DIV/0! |

| NYTIL/Nyanza Range | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | | | | | 2711.3 | 4376.8 | 6625.4 | | | | | | | | | | |
| PBIT | | | | | -337.9 | 592 | 1398.1 | | | | | | | | | | |
| COS | | | | | | | | | | | | | | | | | |
| TE | | | | | 1125.5 | 1620.3 | 2385.4 | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| FA | | | | | 2662.8 | 41230 | 38347.5 | | | | | | | | | | |
| CA | | | | | 2791.9 | 2924.1 | 4806.7 | | | | | | | | | | |
| CL | | | | | 1174.2 | 1813.7 | 2938.2 | | | | | | | | | | |
| wk | 0 | 0 | 0 | 0 | 1617.7 | 1110.4 | 1868.5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CE | 0 | 0 | 0 | 0 | 4280.5 | 42340 | 40216 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | | | | | | | | | | | | |
| WAGES | | | | | 269.1 | 789 | 1160.6 | | | | | | | | | | |
| K/L | #DIV/0! | #### | #DIV/0! | #DIV/0! | 9.8952 | 52.256 | 33.0411 | ##### | #DIV/0! | ##### | ##### | #### | ##### | #### | ##### | ##### | ##### |
| | | | | | | | | | | | | | | | | | |
| ROS | #DIV/0! | #### | #DIV/0! | #DIV/0! | -12.46 | 13.526 | 21.1021 | ##### | #DIV/0! | ##### | ##### | #### | ##### | #### | ##### | ##### | ##### |
| ROCE | #DIV/0! | #### | #DIV/0! | #DIV/0! | -7.894 | 1.3982 | 3.47648 | ##### | #DIV/0! | ##### | ##### | #### | ##### | #### | ##### | ##### | ##### |
| TFP | #DIV/0! | #### | #DIV/0! | #DIV/0! | 2.409 | 2.7012 | 2.77748 | ##### | #DIV/0! | ##### | ##### | #### | ##### | #### | ##### | ##### | ##### |

| Barclays Bank Ltd | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | | 4445 | 1454 | | | | | | 7158.4 | 10062 | 10568 | 11193 | 13794.4 | | 22862 | 24511 | |
| PBIT | | 413.2 | 922.7 | | | | | | -642.8 | 4768.1 | 6269.5 | 3694 | 9727.8 | | 17021 | 15966 | |
| COS | | | | | | | | | | | | | | | | | |
| TE | | 145.4 | 892.3 | | | | | | 5952.6 | 5567 | 5120.7 | 9142 | 6065.8 | | 8810 | 11755 | |
| | | | | | | | | | | | | | | | | | |
| FA | | 44.2 | 2031 | | | | | | 3716.4 | 3467.2 | 3295.1 | 3044 | 3052.9 | | 4151 | 6645.6 | |
| CA | | 2720 | 4960 | | | | | | 62672 | 75618 | 72004 | 85741 | 106924 | | 2E+05 | 173848 | |
| CL | | 2697 | 5159 | | | | | | 64015 | 72837 | 66658 | 77996 | 99457.7 | | 1E+05 | 153266 | |
| wk | 0 | 22.7 | -199 | 0 | 0 | 0 | 0 | | -1343 | 2781.3 | 5345.9 | 7745 | 7466.1 | 0 | 21236 | 20581 | 0 |
| CE | 0 | 66.9 | 1832 | 0 | 0 | 0 | 0 | | 2373.4 | 6248.5 | 8641 | 10788 | 10519 | 0 | 25387 | 27227 | 0 |
| | | | | | | | | | | | | | | | | | |
| WAGES | | 66 | 538 | | | | | | 3680.9 | 3392.6 | | | | | | | |
| K/L | ##### | 0.67 | 3.774 | #DIV/0! | ##### | ##### | ##### | ##### | 1.0096 | 1.022 | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### | #DIV/0! | ##### |
| | | | | | | | | | | | | | | | | | |
| ROS | ##### | 9.296 | 63.48 | #DIV/0! | ##### | ##### | ##### | ##### | -8.98 | 47.39 | 59.328 | 33 | 70.5199 | #DIV/0! | 74.45 | 65.14 | ##### |
| ROCE | ##### | 617.6 | 50.38 | #DIV/0! | ##### | ##### | ##### | ##### | -27.08 | 76.308 | 72.555 | 34.24 | 92.4784 | #DIV/0! | 67.04 | 58.642 | ##### |
| TFP | ##### | 30.57 | 1.629 | #DIV/0! | ##### | ##### | ##### | ##### | 1.2026 | 1.8073 | 2.0637 | 1.224 | 2.27413 | #DIV/0! | 2.595 | 2.0851 | ##### |

| Baroda Bank Ltd | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | | | | | | | | | | | 4054.9 | 8306 | 8794.8 | 7502.9 | 9285.6 | 10509.1 | |
| PBIT | | | | | | | | | | | 4844.1 | 6381 | 4831.6 | 3954 | 127 | 8672.4 | |
| COS | | | | | | | | | | | | | | | | | |
| TE | | | | | | | | | | | 3757.5 | 3888 | | | 5724.6 | 5260 | |
| | | | | | | | | | | | | | | | | | |
| FA | | | | | | | | | | 56204 | 71367 | | | | | | |
| CA | | | | | | | | | | 54142 | | | | | | | |
| CL | | | | | | | | | | | 67490 | | | | | | |
| wk | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 54142 | -67490 | 0 | 0 | 0 | 0 | 0 | 0 |
| CE | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 110346 | 3877.9 | 64605 | 71094 | 81804 | 83980 | 95826.7 | 0 |
| | | | | | | | | | | | | | | | | | |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | ##### | #### | ##### | ##### | #DIV/0! | #### | #DIV/0! | #### | ##### | #DIV/0! | #DIV/0! | ##### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### |
| | | | | | | | | | | | | | | | | | |
| ROS | ##### | #### | ##### | ##### | #DIV/0! | #### | #DIV/0! | #### | ##### | #DIV/0! | 119.46 | 76.83 | 54.937 | 52.7 | 1.3677 | 82.5228 | ##### |
| ROCE | ##### | #### | ##### | ##### | #DIV/0! | #### | #DIV/0! | #### | ##### | 0 | 124.92 | 9.878 | 6.79607 | 4.8335 | 0.1512 | 9.05009 | ##### |
| TFP | ##### | #### | ##### | ##### | #DIV/0! | #### | #DIV/0! | #### | ##### | #DIV/0! | 1.0791 | 2.136 | #DIV/0! | #DIV/0! | 1.6221 | 1.99793 | ##### |

| Stanchart Bank Ltd | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | | | | | | 1448 | 2374 | 4156.1 | 5637.2 | 6983.2 | 9218.3 | 14595 | 19255 | 26571 | 43639 | 49527 | |
| PBIT | | | | | | -1447 | 2023 | 2914.5 | 4885.7 | 1972.1 | 5239.6 | 9429.1 | 14238 | 18979 | 33230 | 38715 | |
| COS | | | | | | | | | | | | | | | | | |
| TE | | | | | | 3493 | 2273 | 2315.4 | 3047 | 997.3 | | | 8522.1 | 11393 | 16988 | 19682 | |
| | | | | | | | | | | | | | | | | | |
| FA | | | | | | 2969 | 3054 | 6621.1 | 6858.4 | 6933.2 | 7082.3 | 7199.2 | | | | | |
| CA | | | | | | 10674 | 25809 | 3796.8 | 50238 | 51068 | 72945 | 105249 | | | | | |
| CL | | | | | | 12884 | 28002 | | | 50476 | 70836 | 100202 | | | | | |
| wk | 0 | 0 | 0 | 0 | 0 | -2209 | -2193 | 3796.8 | 50238 | 592.1 | 2109.2 | 5046.1 | 0 | 0 | 0 | 0 | 0 |
| CE | 0 | 0 | 0 | 0 | 0 | 760.1 | 861.2 | 10418 | 57097 | 7525.3 | 9191.5 | 12245 | 184758 | 285191 | 410773 | 464650 | 0 |
| | | | | | | | | | | | | | | | | | |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | #DIV/0! | #DIV/0! | #DIV/0! | ##### | ##### | #DIV/0! | ##### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### |
| | | | | | | | | | | | | | | | | | |
| ROS | #DIV/0! | #DIV/0! | #DIV/0! | ##### | ##### | -99.92 | 85.23 | 70.126 | 86.669 | 28.241 | 56.839 | 64.605 | 73.947 | 71.427 | 76.147 | 78.17 | ##### |
| ROCE | #DIV/0! | #DIV/0! | #DIV/0! | ##### | ##### | -190.3 | 234.9 | 27.976 | 8.5569 | 26.206 | 57.005 | 77.002 | 7.7064 | 6.6548 | 8.0896 | 8.3322 | ##### |
| TFP | #DIV/0! | #DIV/0! | #DIV/0! | ##### | ##### | 0.414 | 1.044 | 1.795 | 1.8501 | 7.0021 | #DIV/0! | #DIV/0! | 2.2594 | 2.3321 | 2.5689 | 2.5164 | ##### |

| Grindlays/Stanbic | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | 41.2 | 129.2 | 246.2 | 441.9 | 1124.3 | 2126 | 2982 | 3391 | 4099 | 5613.2 | 8402 | 10748.3 | 14494.7 | 21761 | 15232.2 | | |
| PBIT | 18 | 52.2 | 103.7 | 224.7 | 584.1 | 2153 | | 3334.3 | 2810 | 2651.3 | 5289 | 9824.1 | 14360.9 | 20950 | 25644.1 | | |
| COS | | | | | | | | | | | | | | | | | |
| TE | 18.4 | 42.5 | 198.7 | 368.5 | 724.9 | 1225 | 1691 | 2439.1 | 2731 | 3602.8 | 5037 | 4815.1 | 4538.6 | 7200.2 | 7147.3 | | |
| | | | | | | | | | | | | | | | | | |
| FA | | | | | | | 5971 | 6299.2 | 6268 | 3835.5 | 74910 | 98036.2 | | | | | |
| CA | | | | | | | 25944 | 41925 | 37947 | 45294.9 | | | | | | | |
| CL | | | | | | | 31839 | 41920 | 37304 | 43610.8 | 66148 | 87113.2 | | | | | |
| wk | 0 | 0 | 0 | 0 | 0 | 0 | -5894 | 5.3 | 642.6 | 1684.1 | ##### | -87113 | 0 | 0 | 0 | 0 | 0 |
| CE | 390.2 | 710 | 2771.7 | 5040 | 9883.5 | 18412 | 37885 | 6304.5 | 6910 | 5519.6 | 8762 | 10923 | 42500.9 | 39895 | 0 | 0 | 0 |
| | | | | | | | | | | | | | | | | | |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | #DIV/0! | ##### | #DIV/0! | ##### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### | ##### |
| | | | | | | | | | | | | | | | | | |
| ROS | 43.69 | 40.4 | 42.12 | 50.85 | 51.952 | 101.3 | 0 | 98.328 | 68.55 | 47.233307 | 62.95 | 91.4014 | 99.0769 | 96.27 | 168.355 | ##### | ##### |
| ROCE | 4.613 | 7.352 | 3.7414 | 4.459 | 5.9098 | 11.69 | 0 | 52.888 | 40.66 | 48.034278 | 60.36 | 89.9396 | 33.7896 | 52.512 | #DIV/0! | ##### | ##### |
| TFP | 2.239 | 3.04 | 1.2391 | 1.199 | 1.551 | 1.736 | 1.764 | 1.3903 | 1.501 | 1.5580104 | 1.668 | 2.23221 | 3.19365 | 3.0223 | 2.13118 | ##### | ##### |

| Shell U Ltd | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | 558.4 | 1336 | | | | | | 72559 | 92741 | 1E+05 | 133135 | | | 113197 | 168631 | | |
| PBIT | 123.5 | -646.8 | | | | | | 6888 | 12449 | 10678 | 13319 | | | 27144 | 12415 | | |
| COS | | | | | | | | | | | | | | 68361 | 135706 | | |
| TE | | | | | | | | 7394 | 10264 | | | | | 19386 | 21679 | | |
| | | | | | | | | | | | | | | | | | |
| FA | 45.7 | 1140 | | | | | | 3856 | 9190.1 | 14690 | 18731 | | | 45036 | 46674 | | |
| CA | 367.6 | 969.4 | | | | | | 21264 | 23576 | 23322 | 21803 | | | 36667 | 48567 | | |
| CL | 335.1 | 1568 | | | | | | 10047 | 12537 | 11565 | 10159 | | | 28844 | 45346 | | |
| wk | 32.5 | -598.7 | 0 | 0 | 0 | 0 | 0 | 11218 | 11039 | 11757 | 11644 | 0 | 0 | 7823.2 | 3221.1 | 0 | 0 |
| CE | 78.2 | 541.3 | 0 | 0 | 0 | 0 | 0 | 18611 | 20229 | 26447 | 30374 | 0 | 0 | 52859 | 49896 | 0 | 0 |
| | | | | | | | | 15074 | | | | | | 51159 | | | |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | ##### | #DIV/0! | ##### | ##### | ##### | ##### | ##### | ##### | #DIV/0! | ##### | #DIV/0! | ##### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### |
| | | | | | | | | | | | | | | | | | |
| ROS | 22.12 | -48.43 | ##### | ##### | ##### | ##### | ##### | 9.493 | 13.424 | 9.738 | 10.004 | ##### | #DIV/0! | 23.979 | 7.3624 | #DIV/0! | ##### |
| ROCE | 157.9 | -119.5 | ##### | ##### | ##### | ##### | ##### | 37.01 | 61.542 | 40.38 | 43.85 | ##### | #DIV/0! | 51.35 | 24.882 | #DIV/0! | ##### |
| TFP | ##### | #DIV/0! | ##### | ##### | ##### | ##### | ##### | 9.814 | 9.036 | #DIV/0! | #DIV/0! | ##### | #DIV/0! | 5.839 | 7.7786 | #DIV/0! | #DIV/0! |

| Total U Ltd | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | | | | | | | | | | | | | | 60868 | 69079 | 71771 | 70154 |
| PBIT | | | | | | | | | | | | | | | | 48353 | 48679 |
| COS | | | | | | | | | | | | | | | | | |
| TE | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| FA | | | | | | | | | | | | | | 21319 | 22465 | 23717 | 22648 |
| CA | | | | | | | | | | | | | | 24121 | 17703 | 20321 | 20729 |
| CL | | | | | | | | | | | | | | 20015 | 11925 | 9167.5 | 10075 |
| wk | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4106.1 | 5778 | 11153 | 10654 |
| CE | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 25425 | 28243 | 34871 | 33301 |
| | | | | | | | | | | | | | | | | 44038 | 43377 |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | #DIV/0! | ##### | ##### | #### | #### | #### | ##### | #### | ##### | ##### | #### | ##### | #DIV/0! | #DIV/0! | ##### | #DIV/0! | #REF! |
| | | | | | | | | | | | | | | | | | |
| ROS | #DIV/0! | ##### | ##### | #### | #### | #### | ##### | #### | ##### | ##### | #### | ##### | #DIV/0! | 0 | 0 | 67.372 | 69.39 |
| ROCE | #DIV/0! | ##### | ##### | #### | #### | #### | ##### | #### | ##### | ##### | #### | ##### | #DIV/0! | 0 | 0 | 138.67 | 146.2 |
| TFP | #DIV/0! | ##### | ##### | #### | #### | #### | ##### | #### | ##### | ##### | #### | ##### | #DIV/0! | #DIV/0! | ##### | #DIV/0! | ##### |

| UAC/ENHAS | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | | | | | 3848.9 | 4265.5 | 3032.1 | 4250 | 8316 | 13698 | 19514 | | | | | | |
| PBIT | | | | | -1854 | -689.1 | -2559 | 151.5 | 1268 | 1736 | 3309 | | | | | | |
| COS | | | | | | | | | | | | | | | | | |
| TE | | | | | 5702.9 | 4954.7 | 5562 | 4145 | 7664 | 11962 | 16205 | | | | | | |
| | | | | | | | | | | | | | | | | | |
| FA | | | | | 1447.8 | 1419 | 1363.7 | 1671 | 2236 | 4593 | 5505 | | | | | | |
| CA | | | | | 2800.5 | 4915 | 6926.5 | 10923 | 12146 | 12762 | 9081 | | | | | | |
| CL | | | | | 3454.9 | 3114.2 | 3071.1 | 6282 | 6138 | 8957 | 13441 | | | | | | |
| wk | 0 | 0 | 0 | 0 | -654.4 | 1800.7 | 3855.3 | 4641 | 6008 | 3805 | -4361 | 0 | 0 | 0 | 0 | 0 | 0 |
| CE | 0 | 0 | 0 | 0 | 793.4 | 3219.7 | 5219 | 6312 | 8245 | 8398 | 1144 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | | | | | | | | | | | | |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | #DIV/0! | ##### | ##### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### | ##### | ##### | ##### | ##### | ##### | ##### | ##### | ##### | ##### |
| | | | | | | | | | | | | | | | | | |
| ROS | #DIV/0! | ##### | ##### | #DIV/0! | -48.17 | -16.16 | -84.38 | 3.565 | 15.24 | 12.67 | 16.96 | ##### | ##### | ##### | ##### | ##### | ##### |
| ROCE | #DIV/0! | ##### | ##### | #DIV/0! | -233.7 | -21.4 | -49.02 | 2.4 | 15.38 | 20.67 | 289.2 | ##### | ##### | ##### | ##### | ##### | ##### |
| TFP | #DIV/0! | ##### | ##### | #DIV/0! | 0.6749 | 0.8609 | 0.5451 | 1.025 | 1.085 | 1.145 | 1.204 | ##### | ##### | ##### | ##### | ##### | ##### |

| UP&TC/UPL | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | 247.4 | 882.3 | 2128.5 | 7667.8 | 14322 | 22862 | 36931 | 37841 | 42780 | 49197 | 49917 | | 1860 | 7158 | | | | 2021.7 |
| PBIT | 82.3 | 390.5 | 852.7 | -1409 | -2814 | 12858 | 14189 | 3917 | 53453 | 6617.6 | 14972 | | | 896.8 | | | | -120 |
| COS | | | | | | | | | | | | | | | | | | |
| TE | 105.1 | 491.7 | 1275.7 | 4661.5 | 9820.3 | 9622.2 | 20608 | 21371 | 30370 | 44534 | 55748 | | | 6307 | | | | 2379.3 |
| | | | | | | | | | | | | | | | | | | |
| FA | 128.8 | 2767 | 6997.7 | 6996.1 | 9658.9 | 41362 | 80793 | 51168 | 60289 | 75054 | 98484 | | 16052 | 16718 | | | | 7524.2 |
| CA | 391.7 | 6913.1 | 8361.9 | 8046.1 | 17394 | 29828 | 53664 | 88055 | 122053 | 132616 | 128423 | | 3549 | 6072 | | | | 11042 |
| CL | 216.6 | 7783.3 | 7892.6 | 4924.3 | 13752 | | | 60828 | 64308 | 76604 | 99513 | | 1941 | 3749 | | | | 13677.2 |
| wk | 175.1 | -870.2 | 469.3 | 3121.8 | 3641.9 | 29828 | 53664 | 27227 | 57745 | 56013 | 28910 | 0 | 1608 | 2323 | 0 | 0 | 0 | -2635.2 |
| CE | 303.9 | 1896.8 | 7467 | 10118 | 13301 | 71190 | 134457 | 78395 | 118034 | 131066 | 127394 | 0 | 17661 | 19041 | 0 | 0 | 0 | 4889 |
| | | | | | | | | | | | | | | | | | | |
| WAGES | | | | | | | | | | | | | | 3427 | | | | 562.5 |
| K/L | ##### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### | #DIV/0! | #DIV/0! | #DIV/0! | ##### | ##### | 4.879 | #### | #### | #DIV/0! | 13.3764 |
| | | | | | | | | | | | | | | | | | | |
| ROS | 33.27 | 44.259 | 40.061 | -18.37 | -19.65 | 56.24 | 38.422 | 10.35 | 124.95 | 13.451 | 29.995 | ##### | 0 | 12.53 | #### | #### | #DIV/0! | -5.9356 |
| ROCE | 27.08 | 20.587 | 11.42 | -13.92 | -21.15 | 18.061 | 10.553 | 4.996 | 45.286 | 5.049 | 11.753 | ##### | 0 | 4.71 | #### | #### | #DIV/0! | -2.4545 |
| TFP | 2.354 | 1.7944 | 1.6685 | 1.6449 | 1.4584 | 2.376 | 1.792 | 1.771 | 1.4086 | 1.1047 | 0.8954 | ##### | ##### | 1.135 | #### | #### | #DIV/0! | 0.8497 |

| UP&TC/UPL | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | POBANK99 | POBANK00 | POBANK01 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | 247.4 | 882.3 | 2128.5 | 7667.8 | 14322 | 22862 | 36931 | 37841 | 42780 | 49197 | 49917 | 754 | 1305.6 | 2021.7 |
| PBIT | 82.3 | 390.5 | 852.7 | -1409 | -2814 | 12858 | 14189 | 3917 | 53453 | 6617.6 | 14972 | 132 | 299.6 | -120 |
| COS | | | | | | | | | | | | | | |
| TE | 105.1 | 491.7 | 1275.7 | 4661.5 | 9820.3 | 9622.2 | 20608 | 21371 | 30370 | 44534 | 55748 | 715.4 | 1161.4 | 2379.3 |
| | | | | | | | | | | | | | | |
| FA | 128.8 | 2767 | 6997.7 | 6996.1 | 9658.9 | 41362 | 80793 | 51168 | 60289 | 75054 | 98484 | 5723.3 | 5752.6 | 7524.2 |
| CA | 391.7 | 6913.1 | 8361.9 | 8046.1 | 17394 | 29828 | 53664 | 88055 | 122053 | 132616 | 128423 | 4661 | 6431.4 | 11042 |
| CL | 216.6 | 7783.3 | 7892.6 | 4924.3 | 13752 | | | 60828 | 64308 | 76604 | 99513 | 3735.6 | 6233.2 | 13677.2 |
| wk | 175.1 | -870.2 | 469.3 | 3121.8 | 3641.9 | 29828 | 53664 | 27227 | 57745 | 56013 | 28910 | 925.4 | 198.2 | -2635.2 |
| CE | 303.9 | 1896.8 | 7467 | 10118 | 13301 | 71190 | 134457 | 78395 | 118034 | 131066 | 127394 | 6648.7 | 5950.8 | 4889 |
| | | | | | | | | | | | | | | |
| WAGES | | | | | | | | | | | | 269.4 | 314 | 562.5 |
| K/L | ##### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### | #DIV/0! | #DIV/0! | #DIV/0! | 21.245 | 18.3204 | 13.3764 |
| | | | | | | | | | | | | | | |
| ROS | 33.27 | 44.259 | 40.061 | -18.37 | -19.65 | 56.24 | 38.422 | 10.35 | 124.95 | 13.451 | 29.995 | 17.507 | 22.9473 | -5.9356 |
| ROCE | 27.08 | 20.587 | 11.42 | -13.92 | -21.15 | 18.061 | 10.553 | 4.996 | 45.286 | 5.049 | 11.753 | 1.9854 | 5.03462 | -2.4545 |
| TFP | 2.354 | 1.7944 | 1.6685 | 1.6449 | 1.4584 | 2.376 | 1.792 | 1.771 | 1.4086 | 1.1047 | 0.8954 | 1.054 | 1.12416 | 0.8497 |

| Kinyara Sugar Works | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | | | | | | | | | | 28 | 1581 | 19290 | 28054 | 28054 | 35927 | 45781 | 48377 |
| PBIT | | | | | | | | | | 6423 | -3034 | 3246 | 423.8 | 423.8 | 7788 | 9546 | 8012.2 |
| COS | | | | | | | | | | 159.4 | | | 19418 | 19418 | 21197 | 25963 | |
| TE | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| FA | | | | | | | | | | 53949 | 68106 | 65010 | 67974 | 52524 | 50789 | 61154 | 58879 |
| CA | | | | | | | | | | 9111 | 10214 | 11068 | 11787 | 14135 | 17857 | 18457 | 20046 |
| CL | | | | | | | | | | 3223 | 10706 | 12944 | 21943 | 16830 | 13841 | 9429 | 3787.7 |
| wk | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5888 | -492 | -1877 | -10156 | -2695 | 4016 | 9028 | 16258 |
| CE | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 59837 | 67613 | 63134 | 57819 | 49829 | 54806 | 70182 | 75137 |
| | | | | | | | | | | | | | | | | | |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | #### | #### | #### | #### | #### | #### | ##### | #### | #### | #DIV/0! | ##### | ##### | #DIV/0! | ##### | ##### | ##### | #DIV/0! |
| | | | | | | | | | | | | | | | | | |
| ROS | #### | #### | #### | #### | #### | #### | ##### | #### | #### | 22941 | -192 | 16.83 | 1.5107 | 1.511 | 21.68 | 20.85 | 16.562 |
| ROCE | #### | #### | #### | #### | #### | #### | ##### | #### | #### | 10.73 | -4.49 | 5.141 | 0.733 | 0.851 | 14.21 | 13.6 | 10.663 |
| TFP | #### | #### | #### | #### | #### | #### | ##### | #### | #### | #DIV/0! | ##### | ##### | #DIV/0! | ##### | ##### | ##### | #DIV/0! |

| Associate Match | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | | | | | | | | | | | | | 3.5 | 42.8 | | | |
| PBIT | | | | | | | | | | | | | -223 | -507.1 | | | |
| COS | | | | | | | | | | | | | 107 | -377.2 | | | |
| TE | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| FA | | | | | | | | | | | | | 3749 | 3470.7 | | | |
| CA | | | | | | | | | | | | | 415 | 428.9 | | | |
| CL | | | | | | | | | | | | | 20 | 17.4 | | | |
| wk | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 395 | 411.5 | 0 | 0 | 0 |
| CE | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4143 | 3882.2 | 0 | 0 | 0 |
| | | | | | | | | | | | | | | | | | |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | ##### | #DIV/0! | ##### | ##### | #### | ##### | #### | #### | #### | ##### | ##### | ##### | #### | #DIV/0! | #DIV/0! | #DIV/0! | ##### |
| | | | | | | | | | | | | | | | | | |
| ROS | ##### | #DIV/0! | ##### | ##### | #### | ##### | #### | #### | #### | ##### | ##### | ##### | -6371 | -1185 | #DIV/0! | #DIV/0! | ##### |
| ROCE | ##### | #DIV/0! | ##### | ##### | #### | ##### | #### | #### | #### | ##### | ##### | ##### | -5.38 | -13.06 | #DIV/0! | #DIV/0! | ##### |
| TFP | ##### | #DIV/0! | ##### | ##### | #### | ##### | #### | #### | #### | ##### | ##### | ##### | #### | #DIV/0! | #DIV/0! | #DIV/0! | ##### |

| Kakira Sugar Works | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | | | | | | | | 20113 | 20445 | 24961 | 46005 | 47766 | 50743 | | | | |
| PBIT | | | | | | | | | | | | | | | | | |
| COS | | | | | | | | | | | | | | | | | |
| TE | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| FA | | | | | | | | 19324 | 25792 | 107155 | 99625 | 113804 | 122352 | | | | |
| CA | | | | | | | | 23331 | 27699 | 25603 | 35245 | 28443 | 25098 | | | | |
| CL | | | | | | | | 6098 | 11723 | 28651 | 30873 | 16832 | 19875 | | | | |
| wk | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 17233 | 15976 | -3048.2 | 4371 | 11612 | 5222.1 | 0 | 0 | 0 | 0 |
| CE | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 36557 | 41768 | 104107 | 103996 | 125416 | 127574 | 0 | 0 | 0 | 0 |
| | | | | | | | | | | | | | | | | | |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | #DIV/0! | ##### | #DIV/0! | ##### | ##### | ##### | #### | ##### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #### | ##### | #DIV/0! | #DIV/0! |
| | | | | | | | | | | | | | | | | | |
| ROS | #DIV/0! | ##### | #DIV/0! | ##### | ##### | ##### | #### | 0 | 0 | 0 | 0 | 0 | 0 | #### | ##### | #DIV/0! | #DIV/0! |
| ROCE | #DIV/0! | ##### | #DIV/0! | ##### | ##### | ##### | #### | 0 | 0 | 0 | 0 | 0 | 0 | #### | ##### | #DIV/0! | #DIV/0! |
| TFP | #DIV/0! | ##### | #DIV/0! | ##### | ##### | ##### | #### | ##### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #### | ##### | #DIV/0! | #DIV/0! |

| Uganda Breweries Ltd | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | | | | | 6977.7 | 7921.1 | 9971 | #### | 15638 | 30121 | 44876 | 49706 | 70762 | 85985 | 90128 | 109851 | |
| PBIT | -2.8 | 41 | 140.2 | 722.6 | 630.6 | 338 | 714.7 | -541 | 138.3 | 3024.4 | 6090.8 | 6026 | 9428.6 | 9577 | -256 | 2732.5 | |
| COS | | | | | | | | | | | | | | | | | |
| TE | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| FA | 134 | 199.5 | 231.5 | 7242.2 | 7436.9 | 7291.9 | 8755 | 9834 | 9966 | 9935.3 | 11518 | 19108 | 30015 | 39583 | 37657 | 35589 | |
| CA | 19.2 | 89.1 | 289.8 | 1712.7 | 1909.8 | 2488 | 3892 | 4041 | 3444 | 5607.9 | 7468.2 | 9551 | 15036 | 17431 | 18949 | 25498 | |
| CL | 18.1 | 95.6 | 259.7 | 1352.8 | 1570.4 | 2200.5 | 3867 | 6034 | 4814 | 7140.4 | 4295.3 | 5442 | 10159 | 20897 | 23872 | 26620 | |
| wk | 1.1 | -6.5 | 30.1 | 359.9 | 339.4 | 287.5 | 25.5 | -1993 | -1370 | -1533 | 3172.9 | 4110 | 4876.9 | -3466 | -4923 | -1122 | 0 |
| CE | 135.1 | 193 | 261.6 | 7602.1 | 7776.3 | 7579.4 | 8780 | 7841 | 8596 | 8402.8 | 14691 | 23217 | 34892 | 36117 | 32733 | 34467 | 0 |
| | | | | | | | | 9061 | 7375 | | | | | | 29669 | 30843 | |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### | #### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### |
| | | | | | | | | | | | | | | | | | |
| ROS | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | 9.0374 | 4.2671 | 7.168 | -4.26 | 0.884 | 10.041 | 13.572 | 12.12 | 13.324 | 11.14 | -0.284 | 2.4875 | ##### |
| ROCE | -2.073 | 21.24 | 53.59 | 9.5053 | 8.1093 | 4.4595 | 8.14 | -6.9 | 1.609 | 35.993 | 41.46 | 25.95 | 27.022 | 26.52 | -0.782 | 7.9279 | ##### |
| TFP | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### | #### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### |

| tumpeco/GM TUMPECO | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | 1872 | 34 | 68.5 | 112.6 | 170.3 | 265.7 | | 603.7 | 719 | 1248.4 | 1221 | 1293 | 1611.8 | | | | |
| PBIT | -1034.5 | 1.3 | -6.4 | 75.5 | 96.1 | 151.8 | | 455.9 | 489.3 | | | | | | | | |
| COS | | | | | | | | | | | | | | | | | |
| TE | | | | 92.8 | 104.3 | 172.3 | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| FA | | | | 102 | 100 | 1705 | | 1584.8 | 1526.6 | 1533.9 | 1539 | 1504 | 1513.6 | | | | |
| CA | | | | 95 | 143 | 348 | | 182.1 | 263.8 | 599.7 | 670 | 415.4 | 283.1 | | | | |
| CL | | | | 78 | 112 | 157 | | 264.9 | 208.6 | 261.9 | 178.2 | 142.1 | 256.8 | | | | |
| wk | 0 | 0 | 0 | 17 | 31 | 191 | 0 | -82.8 | 55.2 | 337.8 | 491.8 | 273.3 | 26.3 | 0 | 0 | 0 | 0 |
| CE | 0 | 0 | 0 | 119 | 131 | 1896 | 0 | 1502 | 1581.8 | 1871.7 | 2030 | 1777 | 1539.9 | 0 | 0 | 0 | 0 |
| | | | | | | | | | | | | 2430 | 2284.1 | | | | |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | #DIV/0! | ##### | #### | #DIV/0! | #DIV/0! | #DIV/0! | ##### | #DIV/0! | #DIV/0! | #DIV/0! | ##### | ##### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### |
| | | | | | | | | | | | | | | | | | |
| ROS | -55.262 | 3.824 | -9.3 | 67.052 | 56.43 | 57.132 | ##### | 75.518 | 68.053 | 0 | 0 | 0 | 0 | #DIV/0! | #DIV/0! | #DIV/0! | ##### |
| ROCE | #DIV/0! | ##### | #### | 63.445 | 73.36 | 8.0063 | ##### | 30.353 | 30.933 | 0 | 0 | 0 | 0 | #DIV/0! | #DIV/0! | #DIV/0! | ##### |
| TFP | #DIV/0! | ##### | #### | 1.2134 | 1.633 | 1.5421 | ##### | #DIV/0! | #DIV/0! | #DIV/0! | ##### | ##### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### |

| SCOUL | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | 10.3 | 5.6 | 925 | | | | | | | 22667.8 | 21181 | 20003 | 12365 | 19298 | 24450 | | |
| PBIT | -7 | -58.5 | -341.9 | | | | | | | -9107.2 | -6279.9 | -5417 | -6280 | 3840.1 | -4682 | | |
| COS | | | | | | | | | | 26107.7 | 24368 | 22640 | 14355 | 17393 | 20423 | | |
| TE | | | | | | | | | | 9859 | 9628.3 | | | | | | |
| | | | | | | | | | | | | | | | | | |
| FA | | | | | | | | | | 64064.8 | 72946 | 68337 | 67971 | 59512 | 53753 | | |
| CA | | | | | | | | | | 20918.9 | 19563 | 18297 | 18565 | 18833 | 16998 | | |
| CL | | | | | | | | | | 13633.2 | 31334 | 16219 | 22056 | 55911 | 47202 | | |
| wk | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 7285.7 | -11772 | 2078.5 | -3492 | -37078 | -30204 | 0 | 0 |
| CE | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 71350.5 | 61174 | 70416 | 64479 | 22435 | 23549 | 0 | 0 |
| | | | | | | | | | | | | 48731 | | | | | |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |
| | | | | | | | | | | | | | | | | | |
| ROS | -67.961 | -1044.6 | -36.962 | #DIV/0! | #DIV/0! | ##### | #DIV/0! | #DIV/0! | #DIV/0! | -40.1768 | -29.648 | -27.08 | -50.79 | 19.899 | -19.15 | #DIV/0! | #DIV/0! |
| ROCE | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### | #DIV/0! | #DIV/0! | #DIV/0! | -12.764 | -10.266 | -7.693 | -9.74 | 17.117 | -19.88 | #DIV/0! | #DIV/0! |
| TFP | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | ##### | #DIV/0! | #DIV/0! | #DIV/0! | 2.2992 | 2.1999 | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |
| | | | | | | | | | | 2.6481 | | | | | | | |

| Nile Breweries Ltd | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SALES | 2256 | | | | 1893.8 | 4006.5 | 5188.7 | 11171 | 15876 | | | 66373 | 76084 | | | | 102800 |
| PBIT | -161.2 | | | | 99 | 145.4 | 1153 | 1003 | 4203.8 | | | 3171 | 3116.3 | | | | 6171.2 |
| COS | | | | | 1053.2 | 2447.3 | 1892.2 | 6018.3 | 6953 | | | 45271 | 53370 | | | | 66310 |
| TE | | | | | 753.3 | 1560.7 | 4559.2 | 3679.8 | 5233.9 | | | | | | | | |
| | | | | | 59.4 | -277.8 | 1393.1 | 1393.1 | 3638.1 | | | | | | | | |
| FA | | | | | 573.8 | 3421 | 4188.8 | 3957.8 | 18653 | | | 25824 | 23387 | | | | 28596 |
| CA | | | | | 820.6 | 1079.3 | 2537.4 | 5103 | 8454.1 | | | 12761 | 18271 | | | | 22709 |
| CL | | | | | 776.1 | 1867.6 | 4575.7 | 6510.7 | 10058 | | | 11619 | 23883 | | | | 32267 |
| wk | 0 | 0 | 0 | 0 | 44.5 | -788.3 | -2038 | -1408 | -1604 | 0 | 0 | 1141.9 | - 5612.1 | 0 | 0 | 0 | - 9557.8 |
| CE | 0 | 0 | 0 | 0 | 618.3 | 2632.7 | 2150.5 | 2550.1 | 17050 | 0 | 0 | 26966 | 17774 | 0 | 0 | 0 | 19038 |
| | | | | | | | | | | | | | 30443 | | | | |
| WAGES | | | | | | | | | | | | | | | | | |
| K/L | #DIV/0! | #DIV/0! | ##### | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #### | #### | #DIV/0! | #DIV/0! | #### | #### | #### | #DIV/0! |
| | | | | | | | | | | | | | | | | | |
| ROS | -7.147 | #DIV/0! | ##### | #DIV/0! | 5.22758 | 3.6291 | 22.221 | 8.9783 | 26.479 | #### | #### | 4.7775 | 4.0959 | #### | #### | #### | 6.0031 |
| ROCE | #DIV/0! | #DIV/0! | ##### | #DIV/0! | 16.0116 | 5.5228 | 53.615 | 39.332 | 24.656 | #### | #### | 11.759 | 17.533 | #### | #### | #### | 32.416 |
| TFP | #DIV/0! | #DIV/0! | ##### | #DIV/0! | 2.51401 | 2.5671 | 1.1381 | 3.0359 | 3.0333 | #### | #### | #DIV/0! | #DIV/0! | #### | #### | #### | #DIV/0! |

## End Notes

1 US Library of Congress http://countrystudies.us/uganda/39.htm
2 Architects of Uganda's Development Plans included Edward S. Mason, Chief of Mission; Andrew M. Karmarck, Chief, Economist; Richard F.Boyd (WHO), Advisor on Health; Norman D. Lees, Advisor on Industry; Franz Lutolf, Economist; George
3 ……, (1970), Uganda News, 1st May (Ministry of information, Broadcasting and Tourism, Kampala).
4 President Amin's Speech of 12 August 1972, page 3-5
5 s. 1 (2), PERDS 9/1993.
6 S.3 (2) (a), PERDS 9/1993.
7 s. 1 (2), PERDS 9/1993.
8 s. 1 (2), PERDS 9/1993.
9 s. 3 (2) (c), PERDS 9/1993.
10 s.3 (2)(d), PERDS 9/1993.
11 s.3 (2) (b) (ii), PERDS 9/1993.
12 s.3 (2) (b) (ii), PERDS 9/1993.
13 s.3 (2)(b)(iv), PERDS 9/1993.
14 ……, (2004), ''Expensive loans killing entrepreneurship – IMF'', The New Vision, Thursday, 30 September.
15 … …, (2004), ''OPINION: Cheap money wanted,'' The New Vision, Thursday, 30 September.
16 s. 1 (2), PERDS 9/1993
17 The undervalued amount of US$336,000 arising from the sale of Margerita Hotel to Reco Industries has been converted to Uganda Shillings at the current rate of US$1=Shs.1,850. The calculation then becomes US$336,000x1,850=Shs.621.6 million.
18 Allio Emmy & Alfred Wasike, (2004) ''Basajja bailout strategic – Buturo,'' The New Vision, Friday, 29 October.
19 ……. (1998) Government to Lose US$20 million in dubious Payment for Madhvani Loans," Uganda Confidential, Number 315, 20-26 November.
20 Yunusu Abbey (1998) "Uganda Airlines Sell off ENHAS Shareholding," The New Vision, 11 April 1998.
21 Juuko Sylvia, (2007), ''Graft stifling growth – World Bank,'' The New Vision, Wednesday, 12 September
22 …….., (1999), "Now ENHAS Wants to Kill AJAS," Uganda Confidential, 8-14 January, 320.
23 Yunusu Abbey, (1998), "Privatization Unit, ENHAS Sign Sale Agreement: Airlines Staff Wary of Pact, The New Vision, Tuesday 5 May.
24 The UAC had been a major shareholder in ENHAS with 50% stake, Efforte (Salim Saleh's company) and Global Air links each had 20%, and Sabena 5%, the UAC workers and Civil Aviation Authority (CAA) had 2.5% each.
25 Yunusu Abbey, (1998)," Saleh Defends ENHAS, The New Vision, 20 April.
26 Eskom had twenty-four power stations found almost in every province of South Africa and was the World's, fourth producer of electricity. Eskom targeted to pursue strategies to make her an African and global energy King.26 Ironically, South African government planned to sell 30 % shares in Eskom in 2004
27 Dickens Kamugisha, (2007), 'Mr President, let's make Bujagali different,' New Vision, 7 May, 2007
28 Savings-investment, government expenditure-tax revenue, and export import.
29 Development planning was an attempt by the states to plan their activities and those of their citizens. The process involved formulating policy objectives, strategies and implementation. Plans were either comprehensive covering the entire economy or partial for only a limited area or sector. The next stage of planning required a formalized macro-economic model. Plans normally specified a time frame normally five years (short term), or could be medium term covering a period of 10 years (Medium term plan), or more than 15 years (Long term). All these plans comprised of annual plans (budgets).
30 Hoopes (1997:115) argues that it is lack of monitoring and not ownership structures that matter. While bureaucrats tied to one bureau or department may excise self-interest those who move between divisions or departments may not. The individual has several choices before him. One could choose using either individual or collective means to achieve one's desired objective. Bureaucrats can decide to pursue career maximization, self-maximization, budget-maximization, or bureau-shaping strategies or a combination of any of these depending on whether there is movement within the government departments or not. In bureaucracy where there is no movement between departments, the staffs pursue personal interests through either inflating budgets, over-recruitment of staff and proposing large inefficient projects (quadrant 4 Table 1.1). This can also be done on an individual basis whereby self-maximization takes place in form of hoarding department stationery and excessive delegation work to others (quadrant 2). On the other hand, Hoopes argues that bureaucrats in a flexible system have less allegiance to one department and are more concerned with their own personal advancement than the growth or continuation of the department and can apply bureau-shaping techniques like contracting-out non-core functions and eliminating menial tasks (quadrant 3).
31 http://en.wikipedia.org/wiki/Management downloaded on Monday, 19 March 2007
32 http://en.wikipedia.org/wiki/Corporate_governance downloaded on Monday, 19 March 2007
33 There exist several forms of agencies including landlords-tenants, shareholders-managers of companies, workers-managers, patients-doctor, and voters-politicians.
34 A number of hypotheses have been devised to test whether firms minimize transaction costs. Such hypotheses are (i) transaction costs increase with increasing distance, market concentration, decreasing clarity of property

rights, and systematic complexity (ii) and transaction costs decrease with relational contracting, degree of standardization of measurement technologies for quantity and quality, and lack of specificity of investment.

35 Regulation is one of the six means through which governments intervene in the economy. Other means of intervention include planning, provision of a service or production of a public good, distribution of a public good such as development, mediation between capital and labour, and influencing the economy through trade, investment, fiscal and monetary policies.

36 The Longman Dictionary (1978:930) defines regulation as "to control or bringing of order to method or to work correctly." The same Dictionary (1978:240) defines control as "to have power over something or someone; to rule; having directing influence over; direct; fix the time, amount, degree or rate of an activity; compare practice with chosen standard; ensure correctness; or the power to command, influence, direct or guidance." From the definitions, it can be summarized that regulation involves setting rules, compare practice with rules and resolution of the defects.

37 A potentially competitive market is defined, as one in which relaxation of legal or regulatory barriers to entry would reasonably be expected to produce competitors in either the short run or medium term.

38 World Bank concept of "market-friendly" approach refers to private sector promotion and global integration the economy. The first one involves an increase in the role of the free markets and private enterprise as far as possible and rolling back the state. Hence, IFIs use measures like privatization, deregulation, financial liberalization, changes in the taxation and other incentives system. The second aspect refers to a close integration to the World economy through SAPs on export promotion, import liberalization, bringing domestic prices in line with the world market prices through devaluation and FDI promotion. World Bank defines state intervention in pursuing this "market friendly" behaviour. First the state is expected to intervene reluctantly to allow markets work. It is a mistake for the state to carry out physical production of a good, or protect the domestic production of a good that can be imported more cheaply and whose local production offers few spill over benefits. Secondly the state is expected to make checks and balances in form of interventions continually to the discipline of international markets. Lastly the state should intervene openly in a simple and transparent manner and subject to the rules rather than to official discretion. The expected role of the state in this case would be to provide social, legal, and economic infrastructure, create a suitable environment for private enterprise, and ensure a very high level of human capital formation that is a modification of the old neo-classical thinking about role of the state as acting to avoid distortions, a stable macroeconomic environment and a reliable legal framework (Singh, 1995:2 & 5).

39 Water Science and Technology Board (WSTB), (2002), Privatization of Water Services in the United States: An Assessment of Issues and Experience, http://print.nap.edu/pdf/0309074444/pdf_image/99.pdf

40 "http://en.wikipedia.org/wiki/Market_dominance" (Thursday, downloaded 05 July 2007)

40 Perfect competition, in which the market consists of a very large number of firms producing a homogeneous product; Monopolistic competition, also called competitive market, where there are a large number of independent firms which have a very small proportion of the market share; Oligopoly, in which a market is
dominated by a small number of firms which own more than 40% of the market share; Oligopoly's a market dominated by many sellers and a few buyers; Monopoly, where there is only one provider of a product or service; Natural monopoly, a monopoly in which economies of scale cause efficiency to increase continuously with the size of the firm; and monopsony when there is only one buyer in a market.

40 http://en.wikipedia.org/wiki/Job_satisfaction (downloaded Sunday, 9 September, 2007)

41 (Q=output/C=cost).

42 The IGG on receipt of a complaint that the SG, advised that Garuga Properties Limited and Incafex International Limited be paid sh13b and a further sum of Shs. 900 million as damages asked the SG office to hand over the file on October 31, 2003. The SG, refused. The IGG accused the SG of failing to answer summons to appear before IGG and acting according to the IGG Act 2002 that gave him/her powers to access any information, issue summons, arrest and prosecute whoever disobeyed, issued a warrant of arrest against the SG also acting Attorney General. There arose confusion and support for the SG from several people including a Special Presidential Advisor on political affairs, a once victim of high-hand of IGG, deployed military personnel and successfully blocked the IGG from arresting the SG.

43 http://en.wikipedia.org/wiki/Validity_%28statistics%29 (downloaded 9 September 2007).

44 http://en.wikipedia.org/wiki/Reliability_%28statistics%29 (downloaded 9 September 2007).

45 Marcussen Sarcher, 1973.

46 World Bank, 1962:17-8.

47 UDC, 1990:19.

48 http://us.f507.mail.yahoo.com/ym/\\ 04000001

49 UP&TC s.4 (e) (i).

50 Ssempijja David Livingstone, (2004), ''Miners Want Banks to Take Reserves as Loan Security, '' The Monitor, 7 August.

51 Wasike. Alfred, (2004), ''President Museveni blasts banks,'' The New Vision, Tuesday, 25 May.

52 Ssempijja David Livingstone, (2004), ''Miners Want Banks to Take Reserves as Loan Security,'' The Monitor, 7 August.

53 Wasike. Alfred, (2004), "President Museveni blasts banks," The New Vision, Tuesday, 25 May

54 Odeu Steven, (2004), "Interest rates to decline," The New Vision, Friday, 12 March.

55 Bakunzi Didas, (1995), "Suruma Opposes Sell off of UCB," The New Vision, 26 June.

56 Muwema Joshua Ivan, (1995), "UCB Must not be sold," The Sunday Vision, 5 November.

57 Firms with reduced interest meant that their borrowing also reduced while those that in loan capital increased implied increased borrowing. This assumption is based on the logic that volume of interest was determined by the rate of interest and the amount borrowed. But since borrowing rates were constant over the period, then changes in volume of interest expenditure was due to reduced borrowing.

58 Allio Emmy & Alfred Wasike (2004) ‘’Basajja bailout strategic – Buturo,’’ The New Vision, Friday, 29 October.

59 ……. (1998) Government to Lose US$20 million in dubious Payment for Madhvani Loans,” Uganda Confidential, Number 315, 20-26 November.

60 http://www.africareport.com/company_profile.aspx?Company_ID=107.

61 ……, (1998), Stop Government Payment of Shs.3.4 billion for Mehta’s Local Bank Loans,” Uganda Confidential, 23-29 October, Number 311.

62 The promissory notes arrangement collapsed with 1972 nationalizations. In 1980, when Madhvani returned Madhvani Sugar Works (MSW) needed rehabilitation and applied for re-possession. Government formed a joint venture in the new KSW and acquired 51 % shareholding and adjustments were made to the 1972 promissory notes on the basis of 1972 nominal values. Rehabilitation was carried out with loans from EADB and the World Bank. When NRM took over, MoF clarified that it’s was planning divestiture and no longer wanted a joint venture. In 1991, changes occurred in the MoF that favoured the Madhvani and the promissory notes issue resumed.

63 ……… (1998) Government to Lose US$20 million in dubious Payment for Madhvani Loans,” Uganda Confidential 315, 20-26 November.

64 Yunusu Abbey (1998) “Uganda Airlines Sell off ENHAS Shareholding,” The New Vision, 11 April 1998.

65 Although Government denied assisting Basajjabalaba to settle the debts using government money, it had an account with HSBC, the Hong Kong Shanghai Banking Corporation. In the deal, the local branch of the HSBC Bank, Equator Bank, deposited US$11m in Standard Chartered and the latter was urged to fore go the $11m balance. In 2002, the bank listed shs.24.4b (US$11m) worth of bad debts. In 2003, Basajjabalaba was compelled to hand over titles of some of his properties to the HSBC as collateral for the US$11m loan and Government advised him to sell some assets to pay the debt.65.

66 Including Kampala International University (KIU), city Complex Building, Mbarara and Kabale Regency Hotels.

67 Allio Emmy & Alfred Wasike (2004) ‘’Basajja bailout strategic – Buturo,’’ The New Vision, Friday, 29 October.

68 The Kabulasoke sub-station was meant to boost power supply to the Mid Western region, Industrial Area, Kasese, Masaka, Tanzania and Rwanda; while the Tororo one would handle the Eastern region including Kenya; while the Lira station targeted the Northern region and the districts of Masindi and Hoima (RoU, 1998:1-4).

69 Sserwaniko Frank (2002) “Power Sector Gets More Attractive,” The New Vision 11 June.

70 The programme interested several financiers in the lucrative but capital-intensive venture, such that ADB committed a grant of US $2m (about Shs. 3.6 b) on an 18-month study to evaluate the country’s potential in renewable and sustainable sources of energy for rural areas in 2001. The areas under focus included geothermal power, peat, solar and wind as alternative energy sources for villages far from the national power grid. This was in addition to another World Bank credit of US $375m for investors in rural electrification.

71 The driving force behind rural electrification was the concern over the environment spearheaded by DCs. Sub-Saharan Africa (SSA) has the lowest access to electricity compared to the rest of the world, despite huge hydro and other energy sources on the continent. Seventy seven per cent and a half of the population in SSA does not access electricity, compared with less than 14 % in Latin America and East Asia. Most SSA African families still rely on animal waste and firewood for lighting, cooking and heating. Although half of African countries can produce hydro and solar power, only 7% of hydropower and 1.3 % of solar generation equipment was installed because of poor infrastructure and the high cost of investments. Only South Africa and Ghana provided electricity to rural areas to address unemployment and access to energy. With the population growth and a need to protect the environment SSA had to replace biomass sources by less destructive energy supplies urgently.71

72 The plan conducted in 1996 that produced a sequence scheme of hydropower sites on River Nile on least cost basis where the Murchison Falls came out as the least costly but could not be developed because of environmental reasons, leaving Bujagali, Kalagala and Karuma sites as the only potentials.

73 The market existed due to unstable water levels in other countries compared to Uganda but was sensitive to political conflicts. For instance, in 2004, the Rwandan power utility company, Electrogaz received a loan of US$1.6 million from the Bank of Commerce Development and Industry (BCDI, to purchase fuel-driven power generators to supplement on the country's acute, inadequate and fluctuating hydropower supply shortages due to reduction in water levels at their power generating stations that bedevilled the country for the better part of year. The seven power generators from Global Power Systems, a Germany-based firm with Belgian shareholding, would be installed at Jabana Power Station at Kabuye and Gatsata in Kigali and expected to produce 12.5 MW. At the time, the country depended on 28 MW generated from hydropower produced mainly from the northern part of the country. The power generation improvement scheme was estimated to cost Euro 4.3 million co-funded by Electrogaz, the Government of Rwanda and the donor community that would supervise the system rehabilitation.73.

74 A consortium of Norwegian companies

75 Yunusu Abbey (2002) "Bujagali Dam Approval Tomorrow," The New Vision, 17 June.

76 Including interest during construction, US$71 million was for installing new 220KV and 132 KV transmission lines and associated stations, while the rest of the money was for land acquisition, getting necessary consent,

negotiations with and meeting any conditions of the lenders, power sector restructuring and legal framework finalizing and environment impact assessment.
77 By end of 2004, the AES Nile Power had not taken off over allegations of corruption. It was alleged that an Energy Minister had asked for huge bribes from potential investors constructing Kalagala and Karuma. The investors who had offered good financial terms were turned down after failing to provide the alleged US $240, 000 bribe. It was alleged, that the Minister had demanded US $500, 000 from the AES Nile Power who agreed to and gave him US $240, 000 immediately and US $260, 000 after government had signed the contract.77 Later the allegations were found to be baseless. Interestingly, when AES pulled out of the project, the cost reduced in May 2004 by US$150 million from US $500 million to US $ 350 million. Although, the Energy Minister explained the drop as a result of the reduction in compensation to landowners, environmental studies, project implementation plans, cite clearing and fencing and installing machinery on the site intercepted, corruption could not be ruled out. Construction was expected to commence in 2005 and end in 2009.77.
78 Dickens Kamugisha, (2007), 'Mr President, let's make Bujagali different,' New Vision, 7 May, 2007
79 The undervalued amount of US$336,000 arising from the sale of Margerita Hotel to Reco Industries has been converted to Uganda Shillings at the current rate of US$1=Shs.1,850. The calculation then becomes US$336,000x1,850=Shs.621.6 million.
80 The undervalued amount of US$336,000 arising from the sale of Margerita Hotel to Reco Industries has been converted to Uganda Shillings at the current rate of US$1=Shs.1,850. The calculation then becomes US$336,000x1, 850=Shs.621.6 million.
81 Yunusu Abbey,(1998), "Privatization Unit, ENHAS Sign Sale Agreement: Airlines Staff Wary of Pact," The New Vision, Tuesday 5 May.
82 Yunusu Abbey (1998) "Saleh Defends ENHAS," The New Vision, 20 April.
83 Uganda Millers, Uganda Maize Industries Limited, Uganda Feeds Limited and Bread Limited
84 UGMC had never made a loss and even distributed dividends to shareholders. In 1993, UGMC made a profit of over Shs. 688 million and a turnover of Shs. 10.66 billion and a further pre-tax profit in 1994 of just under Shs.500 million on a turnover of Shs. 10.44 billion.
85 (47% were owned directly by the treasury with the UDC holding 31.2%).
86 ……., (1996), "Grain Milling for Sale," The People, 14 February.
87 Mugunga Jim (1997, "Saleh Sold Grain Mailing Company's shares on buying." The Monitor, 9 January.
88 Matsiko wa Mucoori (1997) "Saleh's Firm Sells off its Grain Milling Company's Shares," The Monitor, 6 January.
89 www.arrowgroup.ne.ug/cman.html-16k, www.masscom.mak.ac.ug/online/frontpage/musevenicould-html-3k, and registrar of companies Kampala.
90 ……(1994) "Why Fear Privatization?" The New Vision, 14 September.
91 …….. (1994) "Why Fear Privatization?" The New Vision, 14 September.
92 Olupot Milton and Odyek, John (1997) "Teso Agro Bus Meat Packers" The New Vision, 30 June.
93 Olupot Milton and Odyek, John (1997) "Teso Agro Bus Meat Packers" The New Vision, 30 June.
94Mugunga Jim and Robert Mukasa, (1999), "Kategaya, Engola May Lose Business," The Monitor, 26 May .
95 The code defines a foreign investor as non-Ugandan person or a company in which a non-Ugandan; or a partnership in which the majority of partners are non-Ugandan hold more than 50 % of the shares. This definition excludes a company registered under the Companies Act (Cap 85) in which the government holds a majority of the shares, whether directly or indirectly; or a corporate body established in the country by law; or an international development agency approved by the UIA; a cooperative society registered under the Cooperative Societies Act; and a trade union registered under the Trade Union Act [Investment Code 1991, s.10 (1) a-d, s.10 (2) a-e].
96 There were other under-priced SOEs including Bank of Baroda Uganda Limited, and PAPCO that had genuine business reasons of market and capital respectively. First, Baroda was sold to Bank of Baroda India (BOBI) for Shs. 2.5 billion when 49 % share valuation by KPMG in October 1997 was put at Shs. 3.5 billion. Basing on KPMG valuation, DRIC had in 1997 decided that initial offer price would be Shs. 5.86 billion with a floor price of Shs. 3.75 for 49 % government shares, but BOBI counter-offered Shs. 2.14 billion. BOBI argued that there were five commercial banks of Asian origin licensed in Uganda including Crane, Orient, Trans-Africa, Trust and Gold Trust that had taken a big portion of Baroda's traditional Asian niche market and a payment exceeding Shs. 2.14 billion would not be commercially viable.96.
97 Museveni, (1989), Create True National Capitalists, The Star, and 28 April.
98 ……. (1998) "IGG queries US $10 million Tender Given to TUMPECO," Uganda Confidential, Number 302, 21-27.
99 ……… (1999) "NYTIL Inflates Army Uniform Price," Uganda Confidential, 22-8 October , Number 361.
100 Odeu Steven and Mary Karugaba, (2003), 'Privatized Companies Increase Productivity', The New Vision, Tuesday, 11 November,
101 Juuko Sylvia, (2007), 'Privatised Firms among most profitable,' the New Vision, Monday 17 September.
102 ……., (1998), "BAT Opposes Lifting of Import Ban," Uganda Confidential, Number 296 10-16 July.
103 Our Reporter, (2004), Celtel invests Shs86 billion in Uganda 3 November.
104 Muwanga David, (2004), ''New policy seeks to abolish airtime tax,'' The New Vision, Wednesday, 8 December.
105 Jjuuko Sylvia, (2007), 'Business: Low Airtime Tax can Boost Government Revenue-Study,' The New Vision, Thursday, 15 March

106 Muwanga David, (2004), ‘‘New policy seeks to abolish airtime tax,’’ The New Vision, Wednesday, 8 December
107 Olaki Emmy, (2004), ‘’Museveni asks phone giants to cut charges,’’ The New Vision, Tuesday, 2 November
108 MTN Uganda and UTL also had explored ways to reduce rates in the COMESA region and the rest of the World through technological improvements. Nine Countries in the COMESA would tremendously cut down on telecommunications cost and increase bandwidth when the US$200m project for a submarine fibre cable link was realized. The ESSAy project was an 8,840km high capacity under sea cable from Djibouti to South Africa to provide the missing link to completely encircle Africa with high capacity optic fibre telecommunications network and bridge the digital divide in the region. The EAC coastline was the only part of the African coastline not covered by a similar facility and communication overseas was routed via Europe through international satellite connections that were both expensive and slow because of low bandwidth capacity. World Bank, NEPAD, and various operators in different countries were funding the project.
109 But CELTEL Uganda had plans to reduce this. CELTEL operated in seven COMESA countries with four million subscribers in SSA planned a single rate for COMESA countries if the COMESA accepted a direct link and liberalization of their communication industries. Celtel. Already a direct link between Congo Kinshasa and Congo Brazzaville had resulted into a decrease in the prices and a dramatic increase in calls. Currently, linking some countries needed an international request and at times calls were monitored. Many governments and leaders in the region wanted interconnectivity at least among COMESA. COMESA had a separate, ambitious, World Bank funded, US$300 million regional communication highway plan to set up a trans-COMESA communication consortium called COMTEL.
110 http://en.wikipedia.org/wiki/Management downloaded on Monday, 19 March 2007
111 Others minor stakeholders included employees, suppliers, customers, banks and other lenders, regulators, the environment and the community at large.
112 http://en.wikipedia.org/wiki/Corporate_governance downloaded on Monday, 19 March 2007
113 Larson (1997:131-3; Galal et al, 1994:10
114 Most preferred tier of classified stock, offering more voting rights than Class B Shares. They are designed to insulate management from the short-term swings of Stock exchange, by allowing those in management to control a small amount of the equity of the company but still maintain voting power. These types of shares are not sold to the public and cannot be traded, which supporters of the dual-share system say allow management to focus on long-term goals.
115 Galal et al (1994).
116 The tariff forms and structure that emerged in 1993 were based on harmonized standard (HS) code with 5,300 tariff lines and five steps ranging from 0 to 60% on an ad valorem basis and fixed annually.
117 Uganda Revenue Authority - Taxes for National Development, www.ugrevenue.com/profile
118 The objectives of the URA included the responsibility of providing the foundation for development through revenue mobilization to: 2) Finance current and capital development activities; 3) Increase the standard of living of all Ugandans and reduction of poverty; and 4) Increase the ratio of revenue to GDP, to a level at which Government can - fund its own essential expenditure.
119 ……., (1998), “BAT Opposes Lifting of Import Ban,” Uganda Confidential, Number 296 10-16 July.
120 Obbo Sam, (1996), “Tobacco Battle Rages On,” The New Vision, 15 May.
121 Mayiga V.F.S., (1996), “Overproduction Hurts Efficiency,” The New Vision, 2 May.
122 As expected of duopoly position of BATU, the prices of tobacco went up after privatization, although this was attributed to other factors such as higher taxes and smuggling in 2001. Higher taxation, it was argued, caused decrease of nearly 58% in sales due to people cutting down on their smoking and smuggling that mostly hit the eastern region, bordering Kenya, but the flooding of the Ugandan market with Kenyan-made cigarettes spread to western and north-western regions as well, later. In the city, the estimated drop in BATU sales was 60%.
123 The Shs. 230 was excise duty on more than three bottles of imported soda since a standard soda bottle was 300 mls. But the basic price of say beer in Kenya was equivalent to Uganda Shs. 600; freight Shs. 100, import duty is 22% equivalent to Shs. 154. The 22% included 10% surtax that was not being imposed on Preferential Trade Area (PTA) countries. Total excise duty of Shs. 650 made it Shs.325 a litre, 17% VAT
124 ……., (1998), “Ban on Beer by Another Name?” Uganda Confidential, Number 284, 17-23 April.
125 The effect was that the beer industry, consisting of Nile Breweries Limited (NBL) that commanded 61% market leadership and Uganda Breweries Limited (UBL), was one of the most protected sectors in the regional and international markets with ERP of 167 % in 1997.
126 fish processing, maize, sugar, leather, paints, plastic goods and tobacco with disparities as big as 240% for tobacco, 121% clothes, 96% maize, 51% paints, 45% leather, 23% sugar, 19% plastic and fish 15%. The disparities meant that businessmen could import a produce through a cheaper tariff country in the region first and bring it into the destination country as a regional good. In the worst situations where the difference did not exist, they would smuggle it into the country rendering the international protective tariffs useless.
127 World Bank, 1997.
128 Uganda’s annual consumption of sugar was the smallest in the East African Community (EAC) region at 9.5kg per person per annum as compared with Tanzania and Kenya at 12kg and 14kg respectively.128
129 World Bank, 1997.
130 13.1% for footwear, 10.2% for cement, 7.4% auto parts, 6.8% for bakeries, 5.3% for fish, 3.1% animal feeds and 3.2% meta
131 Siggel and Ssemwogere, (2002).

132 …., (1997), "Local Textile Industry Cries for Protection," Uganda Confidential, Number 244, 4-10 July.
133 MoFPED levied very low tariffs on both finished shoes and finished leather products entering the country. The 1997 Finance Bill levies PTA duty of 6% while duty for finished leather products was 4% and these encouraged imports from Kenya.
134 Kiwanuka Vincent, (1998), "Leather Industry Cries for Protection," Uganda Confidential, 4-10 September.
135 RoU, 1997:108 & 114.
136 S.57 & 58, Act 8/1997.
137 Musoke David, (1994), "UP&TC Privatization Set," The New Vision, 2 February.
138 Mugunga Jim, (1995), "Post Office to be Split in two, Sold by 1996," The Monitor, 10 November
139 and had two national operators, one postal operator, three mobile telephone operators, 17 Internet service providers, 120 FM radio stations, 26 private TV stations and ten courier service companies
140 PSF, 2002:5.
141 S.24 (1) (a-c), Act 8/1997, The Uganda Communication Act.
142 S.26 (a-c), Act 8/1997, The Uganda Communication Act.
143 S.29 (1&2), Act 8/1997.
144 CELTEL Uganda came to the stage when competition was allowed into the telecommunication sub-sector in 1992. Before that, the only operator was UP & TC who provided landlines. CELTEL Uganda introduced mobile phones in the country where landline were the order of the day.
145 Muhereza Kyamutetera, (2004), MTN scraps service fee, The Monitor, 6 May.
146 Olaki Emmanuel, (2004), MTN launches single rate profile, The New Vision, Saturday, 12 June
147 Investment Code 1991, s.13 (a)-(f).
148 Investment Code 1991, s.31 (1-3 (b) & s.32 1(a-g)-2; s.11 (1)-12 (1(g); s.31 (1-3 (b) & s.32 1(a-g)-2.
149 UIA 1991, s.11 (1-4).
150 S.52 (1), Act 6/1999.
151 S.52 (2), Act 6/1999.
152 s. 76 (7 & 8), Act 6/1999.
153 RoU, 1997:108 & 114.
154 S.24 (1) (a-c), Act 8/1997, The Uganda Communication Act.
155 S.26 (a-c), Act 8/1997, The Uganda Communication Act.
156 S.29 (1&2), Act 8/1997.
157 International Telecommunication Union (ITU) rated Africa as the World's fastest growing mobile phone market. More Africans were using phones since 2000 than in the whole of the previous century than traditional, fixed lines although only about half of SSA was covered by a mobile signal and the majority was too poor to own one. Mobile phone companies were one of the great success stories of Africa in recent years increasing at an annual rate of 65%, more than twice the global average due to underdevelopment and budgeting. First, in dilapidated economies like Somalia, the absence of fixed line networks throughout the continent, ignoring of rural areas by telephone companies and overcharging by government telephone companies had endeared people to mobile phones. In Somalia that has had no central authority for 13 years; the take-up had been particularly swift and in 2004 had four mobile phone networks charging about 50 US cents (Uganda Shs. 900) per minute, offering the cheapest international calls in the region. Second, for poor customers who found budgeting difficult, prepaid mobile phone basis eased communication.
158 Ssali Henry H. & Ashah Ntabadde, (2004), UTL gets $38m loan for rollout, The Monitor, Monday, 29 November.
159 Standard Chartered Bank, DFCU Bank, East African Development Bank and PTA Bank to pay UTL worked out separate repayment plans with each bank, but would take between one and two years to repay the loan.
160 including Uganda, Zambia, Tanzania, Sudan, Sierra Leone, Niger, Malawi, Kenya, Gabon, Congo Republic, DRC, Chad and Burkina Faso
161 This makes VoIP cheaper and better for Ugandans who were losing too much money making international phone calls on our existing networks. Local demand existed from Internet Service Providers (ISP) and individual entrepreneurs in Kampala wanted VoIP recognized and used in the Ugandan market. The facility offered other benefits such as advanced call routing, computer integration, unified messaging, integrated information services, long-distance toll bypass, and encryption. Due to the common network infrastructure, one could integrate other media services, like video or even electronic white boards
162 Weddi Davis and Stephen Ilungole, (2004), ''New telephone players coming,'' The New Vision, Monday, 29 November, 2004.
163 S.52 (1), Act 6/1999.
164 S.52 (2), Act 6/1999.
165 s. 76 (7 & 8), Act 6/1999.
166 S.53 (1), Act 6/1999.
167 S.53 (4), Act 6/1999.
168 S.58 (3&4), Act 6/1999.20
169 The most efficient power producers in LDCs included Chile, South Africa, Zimbabwe and Zambia that had losses between 7-11%. The next group with losses of 12-20% included Ghana, Cote D'Ivoire, Senegal, Cameroon and Kenya. The last group with losses between 21-30% included Mali, Guinea, Nigeria and Argentina.
170 In order to solve the inefficiencies, UEDCL launched an aggressive campaign code-named "Operation Sigma" to deal with rampant power thefts that were the main cause of distribution losses, illegal connections, metre by-

pass, metre tampering and installation of 'magic' switches. The campaign started in Kampala and promised to extend to other districts of the country (UEDCL Director's Report and Financial Statement, 2001:2). Despite the campaigns, to reduce power thefts, the losses did not stop. Instead, fresh problems such as load shedding emerged. In addition, the country had a power shortage of between 80 – 100 MW that caused load shedding between 7:00 a.m. to 6:00 p.m. and from 7:00 p.m. to 11:00 p.m. and other supply problems despite growing demand of 8.5% per annum.170 The Energy Minister attributed the power shortage to drought. He also said they planned to import power from Kenya to cover the shortfall in generation at the two Jinja dams.170

171 Act 4/1993, s.4 (1-2).

172 Bank of Baroda Limited, Standard Chartered Bank Limited, Grindlays Bank Limited, Barclays Bank Limited and the eventual selling of UCB to Stanbic.

173 UCB used to be the market leader in terms of deposits with 26%, Standard Chartered Bank with 25%, Stanbic Bank with 11%, Barclays and City Bank taking fifth position with 10% each and Bank of Baroda is ranked sixth (10%)

174 The structure of the formal financial sector in Uganda, in 1999, comprised BoU; 19 commercial banks and seven credit institutions; three development Banks; 27 insurance companies; one leasing company; a savings and credit union with over 2000 members; a Post Office Savings Bank (POSB); and the NSSF. In addition, there were 79 registered operations in micro finance consisting of co-operatives, various NGOs and other savings and credit associations. One commercial Bank (CERUDEB) also operated in the micro-finance sector offering individual savings and loans services for small clients. The sector had few financial products and types of FIs and needed further deepening, lacked medium to long-term finance and had low saving to GDP ratio of about 7% (BoU, 1999:14-5).

175 The new products and services to customers were mostly from FDI banks such as Stanbic, Barclays and DFCU. For instance, market leader Stanbic invested over US$15m (Shs. 26b) in the refurbishment of over 66 former UCB branches countrywide to match international standards and all the branches were linked to one computer network to facilitate customer transaction from any branch. Second, Barclays Bank launched the Barclaycard, first-ever international credit card, in Uganda due to customers demand in August 2004. The card targeted prestige banking customers who earned at least a minimum of Shs. 1.2 million (US$1200) per month would facilitate customers to access shs.29 million (US$14, 500) through outlets in 150 countries. Customers could access initial instant credit of up to Shs. 2.4 million (US$1200) and thereafter access pre-negotiated amounts of credit. The card was a contribution to financial deepening and would reduce inherent risks involved in moving with loads of money. Third and last was DFCU, previously in medium and long-term lending, entered commercial banking and also launched telephone banking through the Pinnacle Club a new banking technique whereby members could call and their bank statements and cheque books delivered to their offices for a membership charge of sh25, 000 (US$12.5) only. Other benefits of the club included more service hours (8.00am to 6.00pm) for weekdays and open at 9.00am and close at 2.00pm on Saturday. The Club customer also had free Internet access and qualified to attend talks on banking by professional speakers.175

176 http://www.health.go.ug/National_Drug.htm.

177 NDA also inspected premises and operations of large-scale pharmaceutical manufacturers with multi-million dollar operations and small-scale and medium manufacturers, producing a small range of mixtures and medicines. These were issued licenses in the name of the pharmacists. Uganda had five active large-scale manufacturers including Rene and Kampala Pharmaceuticals (KPL), which produced a range of over 50 good quality products. The others included UPhL – a PSOE, Bychem and Medipharm.177

178 http://www.health.go.ug/National_Drug.htm.

179 Odong James, (2004), Drug shops get 4-month deadline, The Monitor, 29 Sept.

180 MOFPED, 2001: 59.

181 http://www.caa.co.ug/caa_statute.php.

182 Kakembo Titus W., (1999), "Ali Wants ENHAS Monopoly Probed," The Monitor, 2 July.

183 MOFPED, 2001: 59.

184 ……., (1997), "As New Investors Make Progress: Hima's Woes Not Over," Uganda Confidential, Number 251, 22-28 August.

185 ………, (1997), "As Corruption Stifles Investment: Tororo Cement Limited Evades US $10 m in Taxes," Uganda Confidential, Number 253, 5-11 September.

186 On mixing, the cement and stones did not respond. The masons tried several times at different measures but it looked like dust.

187 Atuhaire Alex B. & Hussein Bogere, (2004), ''Police seize 150 bags of fake cement,'' The Monitor, 5 December

188 Uganda's total consumption of cement was on the rise from 300,000 tonnes in 1996, to 350,000 tonnes in 1997, 500,000 tonnes in 1998 and estimated at 780, 000 tonnes per annum in 2000. Forces influencing demand included the construction boom in residential and commercial buildings. Statistics at the Ministry of Lands indicated that the construction industry grew by 13% in 1997, 20% in 1998 and was estimated at 25% 1999. Although production at the Hima factory rose from 42,378 tones in 1994 to over 119,000 tonnes in 1998, it was insufficient to cater for all the local demand. The major projects included the NSSF building, Rwenzori Courts, the extension of the dam at Jinja, and the construction of offices for the French Embassy. Unlike in the early 1990s when investors predominantly rented small spaces for their projects, current investors were large-scale businessmen engaged in manufacturing and invested in putting up structures for their operations. The return of Asians dispossessed by Idi Amin to their residential buildings necessitated seeking alternative accommodation

increasing the demand for new construction. Another reason was that Ugandans living and working abroad contributed to the construction boom as many were building residential houses.188Of the three cement types sold in Kampala, the Kenyan-produced Bamburi was most highly demanded but most expensive. The wholesale price for Bamburi Cement was Shs. 14, 800 ($10.2) a 50kg bag while Ugandan Hima Cement was Ush14, 500 ($10) and Tororo Cement was the cheapest at Ush14, 000 ($9.6) in 1999.188 Firms also operated under monopolistic competition.

189 Wamboga-Mugirya, (2003), Business: Museveni regrets winding up UDC, The Monitor, 4 August

190 Andrew Bagala, (2008), News: Government to revive UDC – Minister, The Monitor, 28 February

191 Wamboga-Mugirya, (2003), Business: Museveni regrets winding up UDC, The Monitor, 4 August,

192 Wamboga-Mugirya, (2003), Business: Museveni regrets winding up UDC, The Monitor, 4 August

193 Government now realizes that it was a mistake to wind up UDC," he said. Kenya has the Industrial and Commercial Development Corporation (ICDC), Tanzania has the National Development Corporation (TNDC) while even the wealthier United Kingdom has Commonwealth Development Corporation (CDC). Government wound up UDC in the early 1990s of the privatization process, citing corruption and inefficiency as the reasons. Armed with this belief, government chose to privatize public companies.193

194 Andrew Bagala, (2008), News: Government to revive UDC – Minister, The Monitor, 28 February

195 Investment Code 1991, s.13 (a)-(f).

196 Investment Code 1991, s.31 (1-3 (b) & s.32 1(a-g)-2; s.11 (1)-12 (1(g); s.31 (1-3 (b) & s.32 1(a-g)-2.

197 The UIA FDI figures were highly unreliable with regard to giving a true picture of where most investment went and an assessment of the relevance of FDI regulation. Available figures suggest that for three years between 2000/01 and 2002/03, FDI had not exceeded the US$150 million mark. Tracing the impact of licensing on FDI in Uganda showed dismal performance stagnating at the US$150 m mark annually. Most FDI had gone to manufacturing. The 1998/1999 cumulative investments totalled US$60.3 distributed as follows: US$27.8 m for manufacturing, US$27.5 for transport, communication and storage US$0.9m for agriculture, forestry and fishing received US$1.7m; and, the remainder went to real estates, social services, tourism, trade and other businesses with each receiving less than one million US dollars.197

198 UIA 1991, s.11 (1-4).

199 Oketch Martin Luther,( 2004), ADB, Nordic to fund mining, The Monitor, 20 May.

200 Kelvin Kizito, (2006), Uganda Development Corp to be revived, The New Vision, Sunday, 28 May,

201 Henry ochieng, 2003, Opinions: Private sector flop is good case for taking advice, The Monitor, August 6

202 Andrew Bagala, (2008), News: Government to revive UDC – Minister, The Monitor, 28 February

203 ……., (1999), "UCC Intervenes in MTN-CELTEL Phone War," Uganda Confidential, Number 324, 5-11 February.

204 …….., (1999), "New Twist in UTL-CELTEL Tariff Row," Uganda Confidential, Number 326, 19-25 February.

205 Reporter, (1989), Soda Supply to Get Big Boost as Coca-Cola Bounces Back," The Weekly Topic, 3 May.

206 Abbey Yunusu, (1989), "Coke, Pepsi Wrangle Ends," The New Vision, 5 June.

207 In the soda sub-sector, there was stiff competition offering consumers a very wide choice before them and led to closure of some firms. The remaining firms in the industry were former PSOEs called Crown Bottlers Limited (Pepsi-Cola) and Century Bottling Company (Coca-Cola). While Coca-Cola produces Coke, Fanta, Sprite and Fanta Tropical a darling of Kenyan consumers, Pepsi Cola had four brands of Pepsi, Mirinda, Everess and Teem.

208 Before separation of commercial from non-commercial activities, the former used to finance and supply experienced staff to the latter. However, after privatization, this was no longer possible and the regulatory body suffered from both poor financing and staffing. In general, a number of regulatory bodies were set up with inadequate funding and no suitable local staffs to enable them sustain operations. Such examples included the Uganda Communications Commission (UCC), Electricity Regulatory Authority (ERA), and authorities proposed for railways and water. Although cabinet had discussed these problems, no decision was taken on the establishment of a multi-sector regulatory body in order to conserve resources and man them with few local expert staff. Those set up already needed merging such as Dairy Development Authority (DDA), Uganda Coffee Development Authority (UCDA), the Cotton Development Authority (CDO), and the Uganda Tea Authority (UTA) into the agricultural sector while the UCC, ERA and Water or URC under the utility sector.

209 The Financial Institution Statute 1993 drove several banks insolvent. Immediately after the policy, five banks were affected with Central Bank management and takeover. For instance, Trust Africa was suspended in September 1998 but re-opened in January 1999; Co-operative Bank was seized and closed in May 1999; Greenland Bank was seized in April 1999, International Credit Bank (ICB) was also seized and its operations discontinued in September 1999 while Trust Bank went through 'a twist dance' of suspension of operations in September 1998, reopened December 1998 and finally closed in November 1999.

210 Kadilo Gilbert, (2002), "MPs Query Minimum on Micro-Finance," The New Vision, 22 March.

211 Odeu Steven, (2004), ''Traders Want Government to Slash Cash Reserve Requirements,'' The New Vision, Monday, 7 June.

212 Kiganda Ssonko, 2004), African banks' high lending rates decried, The New Vision, Tuesday, 1 June.

213 Ismail Musa Laddu, (2008), 'Business: Financial sector thriving-Mutebile,' The Monitor, 19 June

214 ……, (2004), ''Expensive loans killing entrepreneurship – IMF'', The New Vision, Thursday, 30 September.

215 Lack of access to cheap loans was the biggest restriction for upcoming entrepreneurs and hampered growth. Uganda had about 6% of its US$6b GDP available to the private sector as credit, less than half the average for a country at that level of development. The real interest rate on that borrowing of between 18 and 25% was higher

than a low-income country ought to be charging. Without easy credit, most entrepreneurs started with savings and built their businesses with retained earnings till they got to 50 or 100 employees when they needed the bank support. Comparatively, Kenya performed better in providing financing to the small and growing businesses.215 Hence, despite being the world's most entrepreneurial country, it lacked a cheap credit, thus dampening growth rates. While low inflation and macro-economic stability were the benefits of a good monetary policy, they should not be ends in themselves. The main criteria for judging monetary policy effectiveness should be the development of the country's productive capacity and improvements in living standards. The IMF tight monetary policy resulted into inadequate manufacturing and exports growth rates below development targets.215

216 Ian Roberts, ( ), ''Injury And Globalisation,''
http://www.resurgence.org/resurgence/issues/roberts000.htm (Downloaded on 23March 2005)

217 S.12 (1) d, s.12 (2) a, and s.12 (2) c (i) of Act 6/1999 Electricity Act.

218……, (2002), "Donors Say Government must Scrap Power Tariff Subsidies," Uganda Confidential, Number 500, 5-11 July.

219 Eremu John and Felix Osike, (2003), "Power Price to Shoot Up," The New Vision, Tuesday 11 November.

220 In January 2004, government cancelled the Shs 20.7 billion (US$10.35 million) consumers electricity subsidy instituted by President Museveni at the end of 2001 after a public uproar against the power price rise announced that year. The current rates for power increased for domestic consumers from Shs 170.1 to 171.4 per unit but reduced industrial users' rates from Shs 170.1 to Shs 164.8 for small enterprises, Shs. 155.1 to Shs. 150.3 for medium industrial users and Shs 89.4 to Shs. 60.4 for large industrial consumers and extra large industrial firms Shs. 37.7 a unit.

221 The subsidy removal did not only enhance UEDCL performance, shifted the electricity burden from industries to majority domestic consumers and spreading the industrial power costs

222 Shs. 155.1 to Shs. 150.3 for medium industrial users, and Shs 89.4 to Shs. 60.4 for large industrial consumers

223 In reaction to escalating electricity tariffs, in 2007, the first Electricity Consumer Committee (ECC) to monitor the power on behalf of consumers was inaugurated. The seven-member committee, which promised to start its operations in Kampala Central Division, was composed of members from the Uganda Manufacturers' Association (UMA), the Private Sector Foundation (PSF), the Uganda Chamber of Commerce and Industry (UCCI), the Uganda Hoteliers Association (UHA) and domestic consumers. A memorandum of understanding was signed between the Electricity Regulatory Authority (ERA) and the committee. The main reason for establishing the ECC was to raise knowledge about the sector's issues, the ERA chief executive officer, explained.

224 Dickens Kamugisha, (2007), 'Mr President, let's make Bujagali different,' New Vision, 7 May,

225 Our Reporter, (2004), Celtel invests Shs86 billion in Uganda 3 November

226 Muwanga David , (2004), 'New policy seeks to abolish airtime tax,'' The New Vision, Wednesday, 8 December

227 Jjuuko Sylvia, (2007), 'Business: Low Airtime Tax can Boost Government Revenue-Study,' The New Vision, Thursday, 15 March

228 The high duties also affected affordability of the services especially in rural areas. Although mobile phones were available countrywide, few people afforded them due to the high taxes payable by consumers, consequently, widening the rural-urban divide. Communications growth was only in the urban areas, with the majority of rural Ugandans lacked access to the services. Both government and the private sector had plans to solve the situation. While Government had a rural communication policy developed in 2001 to address the urban-rural divide.228 The private sector involving both MTN228 and CELTEL228 also had alternate plans.

229 Kakembo Titus W, (1999), "Ali Wants ENHAS Monopoly Probed," The Monitor, 2 July.

230 Steve Bicknell, did considerable research into Employee Engagement Data, in ... a common theme between low hygiene - high motivator and low Employee Engagement. ..http://www.ambitious.eu

231 Money, salary, and pay are important in the motivational mix, and thus should not be ignored. However, an increase in salary does not necessarily increase productivity of an employee, but a reduction of salary may result in bad feelings and lower effort. 231That is why, salary is a hygiene factor.

232 Interview with Mr. Mukasa, Secretary General of NUCCPTE at, Kisekka Market, on Monday, 25 April 2006

233 Op cit, Mr. Baingana

234 Interview with Mr. Mukasa, Secretary General of NUCCPTE at, Kisekka Market, on Monday, 25 April 2006

235 State Marketing Boards in Uganda included the Lint Marketing Board (LMB), the Coffee Marketing Board (CMB) and the Produce Marketing Board (PMB).

236 ………, (2002), "Museveni Opens East African Assembly," New Vision, Tuesday, 22 January.

237 s. 3, Statute 10/1993

238 Statute 10/1993 s.72 (2) (c) (iii-iv)

239 Interview with Edward Rubanga, Trade Unionist with URWU, Sunday 28 September 2003 in Kampala at CBR

240 Statute 10/1993 s.72 (2) (c) (iii-iv)

241 s. 3, Statute 10/1993

242 Crown Bottlers Company Limited, (1999), 'Change of Pay periods,' Letter from the Human Resources Manager Mr. Ian Tailor dated 10 May

243 Crown Bottlers Company Limited, (1999), Substantive Agreement between Crown Bottlers Company Limited and UBTAWU, 1 May, Kampala.

244 Interview with Mr. Baingana at Delhi Garden, Plot 1, Old Kampala Uganda, on Thursday, 21 April 2006

245 Crown Bottlers and UBTAWU, (2005), Agreement on Terms and Conditions of Service between Crown Bottlers and UBTAWU, Kampala.
246 UBTAWU, (1998), Agreement between Crown Bottlers Limited and the UBTAWU, Kampala
247 Crown Bottlers, (2005), Agreement on Terms and Conditions of Service between Crown Bottlers and UBTAWU, Kampala.
248 Nile Breweries Limited, (2005), Agreement made between Nile Breweries Limited and Uganda Beverages and Tobacco Allied Workers Union (UBTAWU), Kampala
249 Minutes of the National Negotiating Committee, held on 12 and 13 January 1987, to discuss the Union demands for 1987 contained in the Union letter dated 22 October 1986.
250 UBTAWU, (2005), UBTAWU General Secretary' Report of Activities to the National Executive Council dated 22 October, Kampala.
251 NUCCPTE, (2005), Revised Collective Agreement for Consolidated Salaries/wages between NUCCPTE and Bank of Baroda Uganda (BOBU) from 1 Janaury-31 December, Kampala
252 Interview with Mr. Apollo Himanyi, UEAWU Administrator, on 9 May 2006
253 Op cit,Mr. Wandera
254 Op cit,Mr. Wandera
255 Statute UP&TC, s.52 (1) a
256 s.52 (1) a, Statute UP&TC
257 s.52 (2), Statute UP&TC
258 s.11 (2), Statute22/1965
259 s.11 (1), Statute22/1965
260 s. 19, Statute 9/1993
261 s. 23 (b) Statute 13/1993
262 Op cit, Mr. Baliraine
263 Crown Bottlers Company Limited, (1999), 'Change of Pay periods,' Letter from the Human Resources Manager Mr. Ian Tailor dated 10 May
264 Crown Bottlers Company Limited, (1999), Substantive Agreement between Crown Bottlers Company Limited and UBTAWU, 1 May, Kampala.
265 The PERDS 9/1993 and its subsequent amendments classified enterprises in five groups. The first group included those enterprises to be fully owned by government. These were economically viable, politically sensitive, provided essential services and were tied to projects that had huge external funds acquired by government for their rehabilitation. The second category (class II) consisted of enterprises in which government held majority shares. They included viable, politically sensitive and that provided essential services but differed from the first group by the fact of rehabilitation costs funded by foreign donors. The third category (Class III) included enterprises where government was to hold minority shares. These were viable economically and high cost projects that attract private equity and technology if government were to take up some equity holding in them. The fourth (Class IV) and fifth (Class V) categories included those enterprises government was to sell and liquidate respectively. The fourth category included those enterprises that were economically viable and commercially oriented while the fifth category included the economically unviable and defunct or non-operating SOEs. Since, 1993, however, government has been shifting enterprises as it wishes. The criteria of starting with small ones, to medium and later too large seem to have been at work in Uganda. It can be noted that the in the early privatisations before 1996, trade Unions and their members were not involved in the process and even when some attended they process was very academic for trade unionists to follow.265
266 Uganda Posts Limited (UPL), Uganda Telecom Limited (UTL), the Post Bank Uganda Limited or the Uganda Communications Commission (UCC) in case of UP & TC or Uganda Electricity Distribution (UEDCO), Uganda Electricity Generation Company (UEGCO) and the Uganda Electricity Company (UE.CO) in case of UEB
267 s. 89 (1), Uganda Communications Act 8/1997
268 s. 89 (2), Uganda Communications Act 8/1997
269 s. 90 (1), Uganda Communications Act 8/1997
270 s. 90 (2), Uganda Communications Act 8/1997
271 s. 90 (3), Uganda Communications Act 8/1997
272 s. 90 (4 & 5), Uganda Communications Act 8/1997
273 Interview with Mr. Baingana at Delhi Garden, Plot 1, Old Kampala Uganda, on Thursday, 21 April 2006
274 Op cit, Mr. Bahingana
275 Interview with Mr. Apollo Himanyi, UEAWU Administrator, on 9 May 2006
276 Op cit, Mr. Baingana
277 Op cit,Mr. Wandera
278 Editorial, (1989), "Breweries Must Stop Unnecessary Losses," The New Vision, 18 April.
279 International Telecommunication Union (ITU) rated Africa as the World's fastest growing mobile phone market. More Africans were using phones since 2000 than in the whole of the previous century than traditional, fixed lines although only about half of SSA was covered by a mobile signal and the majority was too poor to own one. Mobile phone companies were one of the great success stories of Africa in recent years increasing at an annual rate of 65%, more than twice the global average due to underdevelopment and budgeting. First, in dilapidated economies like Somalia, the absence of fixed line networks throughout the continent, ignoring of rural areas by telephone companies and overcharging by government telephone companies had endeared people to mobile phones. In Somalia that has had no central authority for 13 years; the take-up had been particularly swift

and in 2004 had four mobile phone networks charging about 50 US cents (Uganda Shs. 900) per minute, offering the cheapest international calls in the region. Second, for poor customers who found budgeting difficult, prepaid mobile phone basis eased communication.279

280 Ssali Henry H. & Ashah Ntabadde, (2004), UTL gets $38m loan for rollout, The Monitor, Monday, 29Nov.

281 Standard Chartered Bank, DFCU Bank, East African Development Bank and PTA Bank to pay UTL worked out separate repayment plans with each bank, but would take between one and two years to repay the loan.

282 including Uganda, Zambia, Tanzania, Sudan, Sierra Leone, Niger, Malawi, Kenya, Gabon, Congo Republic, DRC, Chad and Burkina Faso

283 Allio Emmy & Alfred Wasike (2004) ‘’Basajja bailout strategic – Buturo,’’ The New Vision, Friday, 29 October.

284 Mugunga Jim, (1997), “Saleh Sold Grain Mailing company shares on buying day,” The Monitor, 9 January.

285 …….., (1999), “Now ENHAS Wants to Kill AJAS,” Uganda Confidential, 8-14 January, 320.

286 Yunusu Abbey,(1998), “Privatization Unit, ENHAS Sign Sale Agreement: Airlines Staff Wary of Pact,” The New Vision, Tuesday 5 May.

287 The UAC had been a major shareholder in ENHAS with 50% stake, Efforte (Salim Saleh’s company) and Global Air links each had 20%, and Sabena 5%, the UAC workers and Civil Aviation Authority (CAA) had 2.5% each.

288 Yunusu Abbey, (1998), “Saleh Defends ENHAS,” The New Vision, 20 April

289 Yunusu Abbey (1998) “Uganda Airlines Sell off ENHAS Shareholding,” The New Vision, 11 April 1998.